

# CONTENTS

ACRONYMS .....	ii
PREFACE AND ACKNOWLEDGEMENTS .....	iii
<b>1. INTRODUCTION.....</b>	<b>1</b>
1.1. EVOLUTION OF PERU’S SOCIAL AND ECONOMIC SITUATION .....	1
1.2. THE PERUVIAN NGO SECTOR: BIRTH AND DEVELOPMENT.....	2
1.3. NGOS AND CIVIL SOCIETY .....	3
1.4. A SUCCINCT VIEW OF DEVELOPMENT COOPERATION TO PERU.....	4
<b>2. FUNDING MECHANISMS .....</b>	<b>7</b>
2.1. CHANGES IN FUNDING MECHANISMS .....	7
2.2. NORTHERN NGOS - THE ‘TRADITIONAL’ DONORS.....	8
2.3. ‘NEW’ SOURCES OF FUNDING.....	10
2.3.1. COUNTERPART FUNDS.....	12
2.3.1.1. Peru Canada General Counterpart Fund (PCGCF).....	14
2.3.2. MULTILATERAL ORGANISATIONS.....	18
2.3.3. FONCODES .....	20
<b>3. FINDINGS.....</b>	<b>23</b>
3.1. FINDINGS FROM INTERVIEWS: NGOS ON DIRECT FUNDING.....	23
3.1.1. OFFICIAL AGENCIES .....	23
USAID.....	23
Inter-American Fund (IAF) .....	25
CIDA, Canada .....	26
ODA, British Council.....	26
3.1.2. INTERNATIONAL NGOS .....	27
OXFAM America.....	27
Catholic Relief Services (CRS) .....	27
3.1.3. LOCAL NGOS .....	28
Views from Peruvian NGO Directors.....	29
<b>4. REVIEW OF CASE STUDIES.....</b>	<b>31</b>
4.1. THE REPOSALUD PROJECT .....	31
4.2. THE CASE OF AYACUCHO .....	34
4.3. THE CASE OF HUANCAYO .....	38
<b>5. RELATIONSHIPS.....</b>	<b>41</b>
5.1. NGOS AND FUNDERS (CFs, OAS, NNGOs).....	41
5.2. NGOS AND THE PERUVIAN GOVERNMENT .....	44
5.3. INTER-NGO RELATIONSHIPS .....	46
5.4. NGOS AND CIVIL SOCIETY .....	47
<b>6. TOWARDS A CONCLUSION .....</b>	<b>49</b>
<b>APPENDIX.....</b>	<b>51</b>
<b>BIBLIOGRAPHY .....</b>	<b>52</b>

## Acronyms

ADEX	Asociacion de Exportadores
ANC	Asociacion Nacional de Centros
CCC	Centro de Capacitacion Campesina
CEBEMO	Catholic Organisation for Joint Financing of Development Programmes
CEDAP	Centro de Desarrollo Agropecuario
CEPES	Centro Peruano de Estudios Sociales
CF	Counterpart Funds
CIDA	Canadian International Development Agency
CIDRA	Coordinadora Interinstitucional para a Desarrollo Rural de Ayacucho
CIPPD	Centro de Investigacion y Promocion Para el Desarrollo
COFIDE	Corporacion Financiera de Desarrollo
DESCO	Centro de Estudios y Promocion de Desarrollo
EUJ	European Union Counterpart Fund
FCPUE	Fondo de Contravalor Peru-Union Europea
FICONG	Fortalecimiento Institucional y Capacitacion para ONGs en America Latina
FOLADE	Fondo Latinoamericano de Desarrollo
FONCODES	Fondo Nacional de Compensacion y Desarrollo Social
FOVIDA	Fomento de la Vida
HIVOS	Humanistisch Instituut voor Ontwikkelings-Samenwerking
IDB	InterAmerican Development Bank
ICCO	Interkerkelijke Organisatie voor Ontwikkelingssamenwerking
IER	Instituto de Estudios Regionales
IMF	International Monetary Fund
INP	National Planning Institute-Peru
ITDG	Intermediate Technology Development Group
JF	Japan Counterpart Fund
MR	Manuela Ramos
MRTA	Movimiento Revolucionario Thapac Amaru
NGO	Non-Governmental Organisation
NOVIB	Nederlandse Organisatie voor Internationale Ontwikkelingssamenwerking
ODA	Overseas Development Agency
PAR	Programa de Apoyo Retorno
PCGCF	Peru Canada General Counterpart Fund
PREDES	Proyecto de Emergencia y Desarrollo
SCF	Save the Children Fund
SECTI	Secretariat for International Technical Cooperation
SF	Swiss Counterpart Fund
SP	Shining Path/Sendero Luminoso
TADEPA	Taller de Promocion Andina
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
USAID	United States Agency for International Development
WB	World Bank

## **Preface and Acknowledgements**

This study is a contribution to the INTRAC sponsored study on 'Funding from a Southern Perspective'. Other case studies included: Kenya, Bangladesh and Zimbabwe. The Peruvian study was conducted between November 1995 and September 1996. Initial work being carried out by Brian Pratt during visits to Peru in November 1995 and February 1996. The bulk of this study was compiled by Teobaldo Pinzas and edited by Janet Danziger, Simon Heap and Marie Diaz. Some of the initial findings were fed back to a group of Peruvian NGO directors at a meeting organised by Mariano Valderrama, who had supported this project throughout. Other thanks must go to Rochi Saudoval and Norme Cauales who provided research assistance at various stages of this report.

# **1. Introduction**

This report explores the changing mechanisms of funding, and the implications of some of these changes on the funders-official agencies and Northern NGOs (NNGOs)-and the funded, the local Peruvian Non-Governmental Organisations (NGOs). It looks at the evolution of the NGO sector in Peru with reference to the Peruvian and global contexts. The report examines the current activities and interactions of certain key actors and discusses the changing dynamics of the relationships between the different sectors, specifically taking a Southern perspective on the changes and their effects. It examines the implications for traditional North-South partnerships in the face of the growth in direct funding, and the role of NGOs in the context of an increased donor interest in civil society.

## **1.1. Evolution of Peru's Social and Economic Situation**

The Peruvian economy was considered to be one of the most promising in Latin America in the 1960s due to its wealth of natural resources. Increasing government intervention in pricing, interest rates, credit allocation and labour markets, however, led to policy failure and economic decline. Inefficient import substitution, high tariffs and an overvalued exchange rate discouraged agricultural exports and promoted large-scale migration of Peruvians from rural to urban areas, with negative economic and social repercussions. During the 1980s terrorist activities resulted in further population migration and reduced agricultural and industrial productivity. Under the Garcia administration from 1985 to 1990, Peru underwent one of the deepest and most rapid economic deteriorations experienced by any country in peacetime this century - consumption per capita by the poorest 20% of the population declined by 60%. By 1990, these imbalances had contributed to hyperinflation, deep recession, unsustainable levels of foreign debt and a marked decline in most social indicators.

An extremely effective economic reform programme instituted by Fujimori after 1990 succeeded in reducing inflation from an annual mean of 7,600% in 1990 to 24% in 1994, the lowest rate for 17 years. These economic reforms were supported by multilateral institutions such as the World Bank (WB), the International Monetary Fund (IMF) and the InterAmerican Development Bank (IDB). In turn, Peru took major steps towards reintegration into the international financial community by clearing its debts with the WB and IMF, paving the way to receive new monies from these institutions for the first time since the late 1980s. Due to the success of the stabilisation and economic reform programmes as well as the improved political situation, private international investor confidence increased as the net foreign investment figures rose from negative levels pre-1992 to US\$2,326 million by 1994.

Despite all these dramatic improvements in the economy some unresolved problems continue: the overvalued exchange rate still makes exports difficult, unbalanced public revenues, high real interest rates, and serious government debts to the commercial banks.

New government policies have partially improved the social sectors, however there is a more pressing need for further change in this area. Since 1990 the percentage of Peruvians living in extreme poverty has dropped from 25% to 16%, and those living in

poverty has dropped from 54% to 49%. Despite these improvements around 11 million people still live below the poverty line with insufficient food and inadequate housing, sanitation, health and education.

There are other problems which contribute to the economic and social situation. Terrorism, which was rife in Peru, has significantly been reduced since the capture of the leaders of the Shining Path guerrilla movement in the last few years, but the threat of a re-emergence remains. In contrast, coca production and drug trafficking have expanded recently due to a number of factors including unemployment, its high returns and low risk nature, and the lack of appropriate government policies. Both terrorism and coca production drain government resources and weaken efforts towards national economic integration.

## **1.2. The Peruvian NGO Sector: Birth and Development**

These economic and social problems have made Peru a prime target for aid from NGOs, both national and international. Until the 1960s there were virtually no NGOs in Peru; trade unions, peasant organisations and political parties were involved in political activity and governmental lobbying, while charitable activities and voluntary work were conducted mostly by church organisations. After a period of repressive dictatorship, the re-establishment of democracy in the 1960s with Belaunde's Popular Action Party in 1963 brought with it a change in ideas about society. Programmes such as Belaunde's 'Popular Cooperation' belatedly introduced post-war development ideas into Peru, involving the mobilisation of the voluntary efforts of wide sections of society especially youth (modelled on the US Peace Corps). These had popular support, but when these radical ideas were not completely realised by the government, people looked elsewhere for alternatives. This time coincided with increasing interest from funders in the North. Since then, the Peruvian NGO sector has turbulently developed alongside, and in reaction to, governmental and international pressures.

Presently in Peru there are more than 700 NGOs registered with the Ministry of the Presidency's Secretariat for International Technical Cooperation (SECTI), although 807 are listed in the NGO directory recently published by the Centro de Estudios y Promocion de Desarrollo (DESCO). Many of these date back to the great period of growth in the early 1970s, but there is also evidence of a new generation of NGOs which can trace their origins to the growth of official funding and which are often distinct not only in their age but also in work methodology. The existing NGOs are extremely diverse, varying in terms of age, size, level of institutional stability, ideological motivation, expertise and field. Some tend to focus on small-scale community projects while others operate on a regional or national level and may be members of international networks. Many of these factors are dependent on their history and longevity. It is possible to categorise the NGOs into 'generations'. NGOs were initially set up as instruments for promoting grassroots organisations and their emergence was tied with certain ideological concepts such as Friere's 'consciousness raising' and the concept of community development. This first generation of NGOs have been termed 'historic' to distinguish them from the newer and more technocratic promotional organisations that have emerged. It is made up of the oldest NGOs that initiated operations before the guerrilla war. Despite the variety of their proposals, they shared views on the importance of communal organisations, the need to recover ancient productive techniques, and the

preservation of peasant organisation for social and political change. This philosophy has changed to various degrees, and presently there are other themes and approaches that prevail. The most important new component was credit which was subsequently (and prominently) included in the activities of all these NGOs.

Second-generation NGOs were founded in the second half of the 1980s as NGOs underwent a process of institutionalisation and professionalisation. Due partly to the war situation and partly due to their own philosophy, these NGOs were therefore restricted in their approach and were more technical than ideological. They were concerned less with political or social ideals and concentrated more on practical objectives such as employment generation, technology, small enterprises and agricultural projects and infrastructure. They have also focused on health, including family planning, vaccinations and children's nutrition, and later assisted peasant families affected by violence in the countryside by engaging in projects with displaced people. This response matches actual demands from people fleeing their rural homes for the urban centres and the availability of donor funding. The new generation of agencies has grown on the back of the new funding. This more pragmatic generation is tied to the new official funds which became increasingly available from government agencies and multilateral organisations. This is in contrast to the traditional, larger NGOs which are still dependent upon a decreasing handful of Northern NGOs (NNGOs) donors (such as CEBEMO, NOVIB and ICCO), and are finding it more difficult to maintain their programmes.

Third-generation NGOs founded in the 1990s adopted the legal form of 'non-profit association' in order to participate in a government programme of social infrastructure in very poor areas. FONCODES (Fondo Nacional de Compensacion y Desarrollo Social) was created by the government in 1991 as a temporary autonomous agency to specifically finance social investment projects. The vast majority of these newly formed NGOs are in fact very small transitory contractors, entirely dependent on having their proposals approved by FONCODES. The way in which FONCODES designed its operational rules has helped to expand the number of these NGOs. Many of the NGOs are actually not organisations, but rather a loose collection of projects run by a single agent which are not interlinked or mutually supportive - if one fails, the remainder continue; the unsuccessful die and the successful grow. American NGOs seem unable or unwilling to scale up projects in the same way as large Asian NGOs. Even the larger agencies are a constellation of smaller projects.<sup>1</sup> The first generation of NGOs are tied by a general vision and political affiliation, however for the newer organisations there is no bond.

### **1.3. NGOs and Civil Society**

Civil society has been defined broadly as the organisations that exist outside of the state and the market, but which provide a counterbalance towards these other institutions. For example in Peru, peasant organisations and trade unions as well as the Shining Path guerrilla movement come under one broad inclusive definition of civil society. This illustrates that civil society is not necessarily synonymous with NGOs, and traditionally there had always been a 'strong' civil society in Peru before the growth of the NGO sector. The role that NGOs should play in the context of civil society is uncertain, but it

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<sup>1</sup> NOVIB/DGIS(1990) *Bigger NGOs in East and Southern Africa* The Hague & NOVIB/DGIS (1990) 'BINGOs in South Asia Programme', *Evaluation paper no.32*. The Hague.

is increasingly being shaped by the demands and influence of donors. The NGO sector has become caught up in the push - pull relationship between civil society and the state:

The motive for support for civil society is essentially that a strong civil society will demand a more democratically accountable and transparent state, and lead to sustainable good governance. The task for donors has been to identify what type of organisations are likely to play a key role in civil society and what forms of support can be directed towards them in order to strengthen their capacity to participate in a vigorous civil society.<sup>2</sup>

NGOs are not always the most appropriate or efficient means of strengthening civil society, however, and a strong NGO sector is not equivalent to a strong civil society, and equally a strong NGO sector can actually weaken the state. Despite this the NGO contribution towards civil society is given as a prime objective of direct funding by the donors who see NGOs as contributing to a pluralistic society by providing organisations that are neither commercial nor state-run.

The evolution of civil society has been closely linked to the evolution of the NGO sector as well as governmental developments. The explosion of NGOs in the 1960s and 1970s was accompanied by a growth in other institutions of civil society as the state also attempted to reform society, and the following disintegration of the state in the 1980s was accompanied by a concomitant decline in civil society.

The collapse of 'popular movements' (peasant unions, slum dwellers' committees) in Peru with which many NGOs were linked has led to a crisis and a political vacuum, and the depoliticisation of NGOs is further reinforced by the changes in funding patterns, which reward technical service delivery rather than institutional development. The role which NGOs played in supporting civil society through these popular movements has been replaced by new politically conservative civil society organisations supported by groups such as the United States Agency for International Development (USAID). These are dedicated to the support of micro-entrepreneurs, reform of local government, privatisation and other such measures. Therefore it could be argued that NGOs are becoming increasingly marginalised, even redundant, as actors for promoting civil society.

#### **1.4. A Succinct View of Development Cooperation to Peru**

The death of development as social transformation is a theme commonly encountered in Peru. Critical debate over social inequality, the role of the state in development and many other issues have been silently forgotten, the one exception possibly being environmental issues. The end of development is seen to be linked to the end of solidarity by NNGOs with SNGOs.

Peru used to be the acknowledged leader in the field of Latin American cooperation, dating back to the 1950s. International cooperation gained added prominence during Belaunde's first government with the setting up of the Alliance for Progress and the INP (National Planning Institute) in 1963. In the 1970s, Peruvian officials responsible for international cooperation were well known for their expertise, as was the country's integrated cooperation system that coordinated proposals from the various government sectors, bringing them in line with the criteria outlined in development strategies and the

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<sup>2</sup> A. Clayton (1996) NGOs, Civil Society and the State: Building Democracy in Transitional Societies, INTRAC, Oxford, p.7.

country's investment plans. In addition the cooperation policy went hand in glove with an innovative foreign policy.

A General Cooperation Law enacted in 1971 accompanied the setting up of an administrative system for dealing with international technical cooperation. The cooperation encompassed a broad range of activities and presupposed a high profile from the state as the active promoter of development in charge of defining strategy and priorities. The International Cooperation Procedures Handbook approved in 1984 during Belaunde's second government set out the norms and administration procedures for the management of cooperation projects in which each ministry submits proposals to INP. Suitable projects were presented to the Chancellery, containing operational plans to enable their follow-up and evaluation. Staff at INP were highly trained despite being relatively few. INP coordinated with the Office of Public Credit, Budget and Treasury in the Ministry of Economy and Finance and enjoyed good relations with the Chancellery.

Yet after a number of vacillations concerning the internal organisation of the Foreign Ministry and INP, the latter was disbanded in 1992 and its functions transferred to the Foreign Ministry, the Ministry of the Presidency and the Ministry of Agriculture, but without a body in charge of overall planning matters. At the end of the year the Executive Secretariat for International Cooperation (SECTI) was set up within the Ministry of the Presidency to supervise all international cooperation in Peru.

The dismantling of INP had several side-effects, however. The sectoral planning and cooperation offices of the various ministries were left headless, lost most of their initiative, and the notion of cooperation policies associated with economic and social development plans fell by the wayside and there was an evident lack of interest in managing cooperation in an integrated manner. Whereas INP had forced government ministries to respect the laws governing cooperation projects, SECTI does not command the same authority or regard. Other problems prevent SECTI from effectively fulfilling its role as the entity for arranging and channelling development cooperation: there are no set rules for governing procedure for cooperation projects as the 1984 International Cooperation Procedures Handbook is not based on the 1971 Cooperation Law; the Ministry of the Presidency is perceived as just another ministry with SECTI having little seniority; and SECTI and the wider Peruvian cooperation system appears weak, lacking annual reports, plans or budgets, and budget restrictions limiting work, staff size and expertise, equipment and operational capacity. At the moment there is confusion among international cooperation agencies about which channels they should pursue in relation to technical cooperation and what is the operating capacity of SECTI. Several foreign officials in charge of international cooperation referred to the fact that the development policy is not handled in an integrated manner and similar opinions were expressed by Peruvian counterparts. Nevertheless the political willingness to strengthen SECTI is conspicuously absent, despite the fact that improving its operation would bring in more foreign funding and result in more independent management.

One of the problems affecting recent cooperation programmes is the high turnover of officials representing regional authorities in the management of a project. And the highly qualified professionals who ended up leaving the state in search of better salaries left a vacuum in their wake. Local authorities also experience problems caused by lack of administrative, technical or institutional capacity. Central government policy limiting

the flow of resources to municipal authorities has been a factor here; it considers them potential sources of opposition, and recently enacted a law to cut their funding.

Increasingly international cooperation organisations recommend multi-departmental strategies and a need for projects that involve civil society organisations. SECTI does not have the capacity to bring together the various government departments and civil society organisations. Peru's fragmented planning and cooperation apparatus has hindered the chances of obtaining large amounts of resources where funds are available in areas such as the war on drugs, environmental conservation and comprehensive rural development.<sup>3</sup>

Thus the picture of development cooperation to Peru has changed significantly over the last few years. From having the well coordinated INP to govern policies and programmes to losing sight of an overall development strategy, with minimal co-operation between the various development sectors such as health, education, nutrition and social emergency. SECTI has no institutional solidarity, legal powers or political mandate for making cooperation arrangements and therefore each sector acts independently, and cooperation sources feel that they lack counterparts on the Peruvian side. Peru now has no medium-term development strategies or framework for social policies. All this hinders increases in international aid for development cooperation.

During the government of President Garcia (1985-90) Peru adopted a policy of unilaterally reducing the service of its external debt to no more than 10% of the country's export earnings. The reaction of the international financial community (commercial banks, IMF, World Bank, IDB, bilateral cooperation agencies) was to suspend all new credits, and the disbursements of existing ones.<sup>4</sup> The conflict between Peru and the international financial community gave rise to counterpart funds (Section 2.3.1) whereby funds were set up in order to circumvent the prohibition in order to support development projects in Peru.

One of the first policy measures of Fujimori's government was to re-establish the relationship with the international financial community. Once debts with the WB and IMF were paid, the doors were open for a renewal of development aid to Peru. The WB and the IDB began channelling funds for a variety of projects covering privatisation of state firms, restructuring of the public administration, reconstruction of the national road network, reform of the public education and health systems, rural electrification, urban and rural sanitation and social emergency funds. Running at least to the end of the century at the level of US\$1,000 million annually, most of these reimbursable funds finance government programmes. Recently there have been changes in the way development cooperation has been targeted, with a rise in the assistance for budget/balance-payment assistance programmes associated with economic adjustment programmes. The area that benefited most from cooperation was economic management, which received more than half the total resources. The proportion of food aid has risen while funds directed to other areas such as environmental protection and agriculture have declined. The relative prominence of foreign technical advice, experts and volunteers in cooperation has also decreased, to be positively replaced with local experts.

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<sup>3</sup> All the above in this section is adapted from Valderrama, M. (1997) New Directions in International Co-operation: A View from Latin America, INTRAC, Oxford, ch.3.

<sup>4</sup> Although projects conducted by NGOs continued receiving funds from their Northern counterparts that could be co-funded by ODA sources, and operation of small embassy funds for local initiatives continued operating.

## 2. Funding Mechanisms

### 2.1. Changes in Funding Mechanisms

Due to a number of interlinked events and circumstances some new tendencies and trends in the development cooperation scene have emerged in terms of the sources, the amount of funds and the mechanisms of funding Peruvian NGOs.

Public interest in development cooperation in Latin America has recently dwindled as democracy has returned to most countries and the debt crisis has been largely overcome. The result of this has been a reduction of funds from established sources as other continents are prioritised. Latin America currently receives just 9% of the total international cooperation flows.<sup>5</sup> This has contributed to a change in the sources and characteristics of funding for Peruvian NGOs. Peru has a long history of cooperation, however, and at a time when the ecology movement is on the rise, Peru has the advantage of its wealth of natural resources and biodiversity. Other factors which have attracted international attention in recent years such as widespread poverty, a high level of drug trafficking and terrorist activity, explain why Peru is still one of the leading aid recipients within Latin America. Despite this, the amount it receives in comparison to low-income countries in other continents is relatively small.

But there are various Northern financial sources that supply the Peruvian NGOs and official funds available for local NGOs have increased considerably recently. Some of the reasons are related to the macro-economic political changes in the country. The disastrous period of the Garcia government led to hyperinflation and the resulting economic disruption and insecurity affected all levels of society. The election of a non-party candidate as president was a clear mark of the rejection of the traditional political parties by the electorate exhausted by the economic chaos, the guerrilla war and the failure of the traditional politicians to resolve either.

Bilateral and multilateral organisations in the North such as the WB, IDB and the UN, all contribute to these new official funds. In 1992, 77.9% of total resources were provided from bilateral sources (the main donors being Japan, USA, Italy, Canada, Netherlands and Spain). Multilateral organisations supplied 20.5%, and only 1.9% came from NNGOs.<sup>6</sup> There are several other large sources of official funding for Peruvian NGOs including counterpart funds, traditional embassy funds, and social emergency funds—all of which now outweigh the traditional Northern NGO donors—such that 25% of the foreign assistance to Peru by official agencies goes directly to the local NGOs. There is a conscious effort on behalf of the multilateral organisations to involve the local NGOs in the projects that they fund. For example, the WB has made funds conditional

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<sup>5</sup> In fact the situation has changed so that the more developed South American countries have changed from being recipients of funds to becoming funders in a SouthSouth cooperation, for example PeruArgentina Counterpart Fund.

<sup>6</sup> Valderrama, *New Directions*, ch..2.

to some level of NGO participation in a given project and put pressure on the reluctant Peruvian government for part of their resources to be channelled through Peruvian NGOs. USAID has also proposed to channel more funds through NGOs as part of its policy to reduce bilateral aid, focus on democratic and sustainable development, and encourage civil society. It has a specific programme for small NGO projects, and finances a series of projects carried out by NGOs from its regular budget.

This new interest by governments and multilateral agencies brings a series of changes: conducting feasibility studies, adapting management systems to the larger-scale projects as well as applying controls and standards when assessing results. These developments risk the loss of the ideological incentives and concern with development of NGOs, converting them into simple instruments for carrying out economic and social stabilisation programmes. There is a worry that changes in funding patterns reinforce the depoliticisation of NGOs as concern moves to measurable quantitative achievements rather than qualitative programme development.

## **2.2. Northern NGOs - the 'Traditional' Donors**

The emergence of NNGOs dates back to the period immediately after World War II and was driven by a spirit of solidarity with the poor of the Third World. Latin America became a focus for NGO activity for a number of reasons, such as a relatively high degree of cultural affinity, and established political and religious ties. It had a developed civil society and a vast reserve of professional resources which promised to provide an ideal counterpart for NGO projects. This enabled cooperation systems to evolve and loyalties to be established between Northern and Latin American NGOs.<sup>7</sup> The initial growth of Peruvian NGOs as described above was largely funded by these NNGOs.

The cooperation ties between Northern and Southern NGOs (SNGOs) were geared around global policies and strategies. Emphasis on individual short-term projects gradually gave way to three-year programmes and a focus on institutional support or 'core-funding'. Underlying these changes was the concept of co-responsibility and dialogue between equals among Northern and Southern agencies with a view to enabling SNGO self-sustainability. As a result of this work valuable experience was acquired and high-powered teams were trained. Many of the ideas, methodologies and experts developed in this context were later employed by the government and multilateral organisations.

In the last few years there have been notable changes in the relationships between Northern and Southern NGOs, however, as available resources become increasingly limited. This is for two reasons. First, the NNGOs' income is becoming less secure and many of them operate with a high level of financial insecurity because governments refuse to contribute to financing professionalism, insist on unrealistically low overheads and subject NNGOs to lengthy approval processes. Second, funds are being directed to countries according to where they lie on the United Nations Development Programme (UNDP) Human Development Index and therefore fewer funds will be available to Latin America in general as focus shifts to sub-Saharan Africa and parts of Asia.

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<sup>7</sup> Valderama, *New Directions*, ch..3.

As NNGO income decreases, the resultant streamlining and job cuts have affected the continuity of North-South dialogue and the follow up of activities. The end of solidarity between NNGOs and SNGOs is seen to be linked to the 'death of development as social transformation', a theme commonly encountered. It is argued that the debate is dominated by macro-economists who are concerned with debt and adjustment on the one hand, and by a new form of technical limitation namely micro-enterprise and water on the other hand. Critical debate over social inequality, the role of the state in development and many other issues have been forgotten.

In fact there is considerable evidence of a worrying trend where NNGOs are readjusting their programmes to enable them to access official funds available in Peru to boost their declining incomes such that some may well convert from being donors to becoming competitors with the local NGOs. ITDG (Intermediate Technology Development Group) is an interesting case of adaptation to new funding opportunities and the way an International NGO has squeezed out many local NGOs to capture a considerable proportion of available funds (see Box 1). It is the clearest case which highlights a problem with using the model of direct funding employed here as it does not show up this increasing trend of International NGOs becoming obliged to focus according to official donors' priorities at the field level in a way in which they would probably not be willing to do at HQ level.

#### **BOX 1 : 'PSEUDO' NGOS**

There has been an unusual development in the creation of 'pseudo NGOs'. ITDG, UK provides an example of this phenomenon. ITDG started its work in Peru in 1987 when it received 100% of its funds from the UK. It worked for an agency which was one of its partner's emergency mitigation programmes, Proyecto de Emergencia y Desarrollo (PREDES), and at first developed its operational programme around emergency programmes, housing and water. By 1990 they were raising 60% of their funds outside of ITDG, such as from regional offices of Ford, the United Nations Development Fund for Women (UNIFEM) and Peru Canada General Counterpart Fund (PCGCF), and the plan for 1997 is to raise 82% of funds themselves. There is even a possibility that in the future their regional offices may actually have to contribute to the costs of the UK operation. Related to this is the creation of 'virtual organisations' by ITDG, Peru. These are networks of organisations with their own headed notepaper which are sold as separate and indigenous entities for fund-raising purposes (for example when submitting their proposals to FONCODES), but in actuality are based in the same office. Although the reality is that the UK funds still provide the seed money for them to compete for these funds, and to ensure that the overheads of the considerable office in Lima are covered regardless of their local fund-raising, it is almost becoming the case that the UK funds merely cover overheads whilst all project costs are from other donors.

Another example of an NNGO readjusting its programme, and even changing its values to enable them to access official funds available in Peru is Oxfam United Kingdom and Ireland

(Oxfam UKI). Oxfam UKI has invested a significant amount of money looking for alternative ways of raising funds to boost their declining income, and multilateral sources and counterpart funds are being considered. With such financial support one can understand how the international NGOs are able to compete so effectively with the local NGOs. They are trying to negotiate access to monetised food aid funds, a policy which

they have always criticised, and even campaigned against, in the past. This seems to be a complete turn around by the organisation as a way of maintaining its shrinking budget, and an example of an international NGO being willing to change its policies in order to maintain its own staff, infrastructure and their presence, rather than closing down offices and focusing available resources according to agreed priorities.

The influence of neo-liberal ideology has also affected the relationship and there is an increasing awareness that the past system has generated heavy dependence among the Peruvian NGOs, and that sustainability has not been established. There is also external criticism leading to pressure to investigate the results of work done by the NGOs and greater controls will be imposed by the donors on the efficiency and effectiveness, which in turn puts pressure on NNGOs who apply this attitude when dealing with or auditing the SNGOs.

The role of the NNGO is in need of redefinition:

Perhaps most fundamentally, NNGOs have a growing identity crisis in relation to their increasingly effective Southern counterparts, most of whom want money rather than interference, and support rather than second-hand rules and regulations passed on from Northern governmental donors.<sup>8</sup>

The notion of co-responsibility and balanced dialogue between the NGOs of North and South is fast disappearing with many of the NNGOs returning to the concept of acting as 'teller's windows' for projects. Some NNGOs have gone back to the concept of 'financial contracts' that involve allocating resources for specific activities (i.e. project funding rather than core-funding). Discussion no longer centres so much on objectives, as project indicators and operational monitoring. Although it is true that it had become necessary to reinforce the management and planning aspects of cooperation activities, it is also clear that a regression is occurring with regard to understanding development in qualitative terms and that the notion of dialogue among equals is being abandoned.<sup>9</sup>

Or as more than one local NGO manager said:

The spread of direct funding is not a cause of concern for us; the NNGOs add an expensive and often inefficient bureaucratic layer to the cooperation relationship and we are better off in direct funding relationships with government agencies.

NNGOs should not be damned too hastily however, as Carlos Salazar, a DESCO co-operation expert points out:

In terms of planning future strategies, non-governmental cooperation continues to carry considerable weight with local NGOs, even if its funds and influence are declining. Peruvian NGOs have a long-standing relationship with the European NGOs. This is based on mutual trust, ideology, friendship and commitment. The relationship has had its ups and downs, but it cannot be ignored. The NGOs should look upon NGOs in the North as allies in bilateral and multilateral cooperation dealings. The support of NNGOs provides a firmer base from which to negotiate with the other sources. Proposing alternatives is easier between NGOs, which basically act in relation to society.

### **2.3. 'New' Sources of Funding**

The most important change affecting the world of international development assistance is the move by official agencies to provide financial support directly to NGOs. The

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<sup>8</sup> I. Smillie and H. Helmich (1993) *Non-governmental Organisations and Governments*, Paris, OECD.

<sup>9</sup> Valderrama, *New Directions*, pp.85-6.

period of relative stability under the Fujimori government was rewarded by several major official donors making funds available to the country, the major proportion of which were channelled to NGOs rather than to the state. This was due partly to the post Cold War policies of privatisation and partly to the reduction of state-linked adjustment programmes and related social emergency programmes.

NGOs new funds are coming directly from official bilateral organisations, as well as counterpart funds and from internal sources. The incentives for the funders to interact directly with the NGOs rather than through an NNGO or the Peruvian government are that they regard funding the NGOs directly as a way of increasing the effective delivery of specific services while some see it as a way of supporting democratic processes and strengthening civil society by encouraging greater pluralism in societies dominated by autocratic regimes and single party states. These two reasons require very different skills and capacities. The donors see direct funding as a means of increasing their political influence in Peru and as a way of indirectly influencing policy and procedure of the government and helping to move to a more democratic form of governance. USAID proposes to channel more of its funds through NGOs, for example, 'as part of its policy of reducing bilateral aid and focusing cooperation on democratic and sustainable development and encouraging civil involvement'.

From the point of view of the NGOs the declining level of funds available from the NNGOs in comparison to the potentially large amounts from these new sources make them an attractive proposition. Some have even been exerting a pull for access to official aid, and donors have responded by creating new cooperative mechanisms as well as building their own capacity. To what extent the NGOs have considered, or are aware of the long-term effects and/or the possible negative consequences is unclear, however. The virtual absence of personal contact, public support and international solidarity results in the NGOs own agenda being threatened, as well as increasing dependence on their donors.

The change in the available sources of funding has brought different expectations from the new donors. This has caused changes in the ways that the Peruvian NGOs operate, and the pressures to which they are subjected:

External financial restrictions and the business development (professionalisation) of the NGOs has led to promotional institutions attaching increasing importance to self-financing, loan projects and revolving funds... These initiatives started with the recognition that there are grassroots sectors that have been working with promotional organisations with experience in loan management. A change in attitude among the NGOs themselves has also taken place; while funds were in abundance they operated with project-expenditure focus. Now, however, they apply an investment project focus.<sup>10</sup>

Such business activities risk the identity of the NGOs. In some peoples' opinion the introduction of a commercial focus will be beneficial in the long run, however, even for projects with a political or social slant. Other factors have caused changes in the way in which the NGOs work and the break between them and the 'popular movements', including the guerrilla war, which lead the NGOs into an alternative paradigm of service provision often on a contractual basis.

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<sup>10</sup> Valderrama, New Directions, ch.3.

With the awareness of financial restrictions and the need to redesign the type of work that NGOs carry out, there is also a growing American and European interest for business initiatives such as FOLADE, the Latin American Development Fund, set up by 16 promotional organisations from 14 Latin American countries in 1993, whose members have personal experience in loan management from large projects they have taken part in such as CEPES in Peru. There are also other examples of projects funded with loans, or activities that produce financial returns, all of which are important for NGOs as they provide an essential means of offsetting the increasingly short supply of grants as the prevailing focus changes from 'project-expenditure' to 'project-investment'. These business activities will almost certainly change the nature of the NGOs, but this may be essential in the long term for their survival. Just as the NNGOs still have a valid role, the influences of direct funding are not all negative: although the amount of foreign technical advice has declined, it has been replaced by local experts and consultants, providing jobs and promoting internal development work.

The local director of one important NNGO felt that the changes in Peru are more to do with a crisis in ideology rather than changes in funding (although it could be argued that the two are related, possibly a causative relationship with changing funding mechanisms leading to a loss of developmental thinking and direction). NGOs were historically closely allied to the left wing and had a clear role and vision both of which have now been lost. The collapse of popular movements and peasant unions in Peru, in contrast to other Latin American countries such as Ecuador have deprived the Peruvian NGOs of their client base, their legitimacy and their raison d'être. He thinks that the NGOs have reacted to this by becoming engaged in different types of programmes such as credit and welfare.<sup>11</sup>

It is possible that the new sources of funding which now dominate the NGO scene may only be short term. What will happen if and when they dry up and the cooperation between the NNGOs and the SNGOs is broken? Some people are trying out alternatives, such as debt swaps which are related to writing off old debts in hard currency in return for the government repaying a proportion in local currency for developmental or environmental purposes. Others are trying to create trust funds which might act as a local source of funding. There is little evidence of real movement on either of these fronts, however. There is also no doubt that bypassing both the Peruvian government and NNGOs will have implications for the relationship between the Peruvian NGOs and their government, as well as between the governments and official donors.

### **2.3.1. Counterpart Funds**

Peruvian experience of counterpart funds started in 1989, with the creation of the Peru Canada General Counterpart Fund (PCGCF). It originated after the Garcia government (1985-90) unilaterally decided to reduce the service of Peru's external debt to 10% of the value of exports. In retribution, commercial banks and government lending agencies cut all operations with Peru. The Canadian International Development Agency's staff (CIDA) did not want to cut its cooperation programme, however, and decided to use a mechanism employed in other countries, a Counterpart Fund (CF). This type of fund is based on the unusual system of monetising equipment imported from a Northern country, with the

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<sup>11</sup> Interview with Richard Chase Smith, OXFAM America.

respective Northern government paying the exporters for the value of their goods. These goods (mining equipment, telecommunication equipment, etc.) are sold via commercial importers on contract in Peru. The resulting local currency is then handed over to the CF and subsequently allocated to local NGOs. So this mechanism not only supplies the country with otherwise unobtainable technical equipment, but also provides substantial levels of funding.

The PCGCF experience prompted the creation of other similar organisations (European Union, Swiss, Japanese, French), wishing to replicate what appears to be an effective way to fund development projects that actually reach the poorest sectors of society. There are differences in origin and scale of funds, government and management structure and policies, however. With regard to the origin of funds, the European Union Fund (EUF) is based on the monetisation of food aid;<sup>12</sup> the Swiss Fund (SF) on a debt swap scheme; and the Japanese Fund (JF) on funds from the sale of agricultural equipment, an operation run by the Ministry of Agriculture. The three main funds have comparable project budgets, ranging between US\$7.5 million and US\$14 million. Over the last three years the three totalled US\$30 million a year, to a significant extent to the same geographical areas.<sup>13</sup>

CFs are having a significant impact on the growth of the number of NGOs in several provincial capitals. Never before has there been such an important supply of development funding for these regions that can be accessed by local NGOs. The pattern had always been one of a handful of big Lima NGOs getting most of the (private donor) funding, in several cases 'opening up' projects in poor areas.<sup>14</sup> With CFs this panorama changes radically and small local NGOs may suddenly receive funds in excess of amounts they have had to manage before. Although this is a great opportunity for the local NGOs it is not without problems and certain teething difficulties have been experienced in the allocation and management of the funds.

CFs tried to solve the problem of small NGOs handling large sums of money with the creation of consortia of NGOs, but the experience has not been entirely successful. The principal supporter of consortia, the PCGCF, is now sceptical and thinks that the main use for such 'virtual organisations' could be tasks of coordination, spread of information and promotion of ideas and discussion on regional development, but not project planning or implementation. There are different kinds of consortia. A few are autonomous initiatives of certain NGOs created before CFs started operating. Ayacucho's CIDRA is one such case (see case study below). It was created to serve a need of the NGOs and subsequently has been instrumental for the projects with the PCGCF. Despite the difficulties it might undergo it has some institutional stability and will doubtless continue to be active even if the support from the PCGCF comes to an end. But most of the consortia were created (and still are) at the initiative of the CF or in order to get funding from them. The outcome in these cases depends on the reliability of the NGOs involved.

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<sup>12</sup> On average, some 25,000 MT of wheat and 3,000 MT of colza oil a year, which generates US\$7.5-8.5 million.

<sup>13</sup> The three funds decide their allocation of resources following the 'poverty map' made by FONCODES, which means that they prioritise the rural highlands, especially the southern part of it (Huancavelica, Ayacucho, Apurimac, part of Cusco, Puno, higher areas of Arequipa) and also Cajamarca and some other poor regions in the northern highlands. The SF does not work in the Amazonian areas but the PC and EU funds do. The coastal region is usually omitted on the poverty argument; with the exception of urban marginal areas; the SF does not work in the coast.

<sup>14</sup> Such has been the case, for instance, of CIED with projects and offices in Cajamarca, Arequipa and Puno; Centro IDEAS in Huancayo, Piura and Cajamarca; DESCO in Huancavelica, Chinchá and Arequipa.

CFs place some emphasis on the formal consistency of the proposals submitted to them - logical frameworks and operational plans are requested. This facilitates appraisal and should in theory also help with implementation and evaluation. Again this is problematic as the majority of the NGOs are manned by individuals (many uneducated and/or of peasant origin) who have a close relationship with the target population but a limited knowledge of these management tools. It is not unusual for these NGOs to try to get round this obstacle by hiring the CFs' consultants to make projects for them. Unfortunately a proposal's formal consistency does not mean that the implementing NGO or consortium has the appropriate management skills, nor that the project's contents are adequate for the needs it is attempting to meet.

It is usually found that the preoccupation with formal consistency (both internally and with the CFs' policies and strategies) predominates over the appraisal of the contents and methodology of project proposals. For instance, subjects such as methods of technical extension and participatory techniques at various levels are entirely absent:

The Counterpart Funds want the irrigation canal to be completed on time; it is not that important whether or not the peasants are going to use it.

said one of the informers interviewed. And

when you work with the Counterpart Fund you do not have time to think about what you are doing.

Food aid works by a similar mechanism to counterpart funds. Peru has always been a recipient of food aid and the EU is one of the main donors, although less important than the USA. Food aid constitutes a sizeable proportion of cooperation and has risen in volume in recent years. According to INTERFAIS Peru received 414,000 tons of foodstuff in 1993 and sold 58% of this. Similar to CFs, this programme monetises food and the local currency income is given to the fund for distribution locally. The food is sold through the Sociedad Nacional de Industrias at commercial rates (but VAT is not charged by the government). This is done to avoid driving local food prices down, although critics argue that food aid in Peru has always undermined local prices and results in cheap food for the urban poor at the cost of their rural neighbours.

#### **2.3.1.1. Peru Canada General Counterpart Fund (PCGCF)**

The PCGCF is designed to meet some of the criticisms levelled at similar organisations. For instance, its resources come from the monetisation of Canadian-made equipment for petroleum and gas, mining and telecommunications as well as vegetable oil. For the Canadian public it has the advantage of being a cooperation programme with Canadian content. Canadian NGOs who might feel that they are being undermined have not criticised the PCGCF, and indeed Canadian NGOs who have some form of field presence in Peru have been able to access this fund (e.g. WUS, CUSO, and Cansave).

It also avoids the usual criticisms based on the effects of food aid in the recipient country and it does not regard itself as being 'tied aid' as it only imports what the local distributors feel they can sell on purely commercial grounds. Additionally, as a Counterpart Fund, this mechanism is less likely to be affected by the cooperation budget and CIDA cuts, and its budget is safe at least for another three years. The fund has made grants to the value of approximately US\$44 million between 1989 and 1994, the present

project fund is running at about US\$10 million per year and it also manages a credit fund now valued at US\$12 million. It should be noted that it is not completely devoid of criticism, and there have been doubts expressed about the rigour of its monitoring and evaluation which is perceived to be far weaker than its appraisal, and there are also questions about the way in which some of the largest grants really work.

As regards management, it has a board of governors chaired by the ambassador of Canada, with two representatives of the Peruvian government (designated by the Ministry of Foreign Affairs and the Ministry of the Presidency), one of CIDA and one independent person.<sup>15</sup> This balanced composition of the board limits the possibility of government influence in the allocation of grants, permitting a reasonably objective process of decision-making. Next in line come the two codirectors, Canadian and Peruvian (designated by the government) and below them the technical and administrative staff. The projects manager was recruited by the PCGCF and has ten years experience as director of a provincial NGO.

In terms of strategy and policies the PCGCF (and the other counterpart funds created afterwards) aims to target its funding action to the areas and sectors of population classified as very poor and poor, as per the 'poverty map'. This can be verified by the fact that, of the total "investment" made by the fund between 1989 and 1995, 69% went to these two sectors. However, and in this the PCGCF differs from the other counterpart funds, the remaining 31% was spent in provinces classified as acceptable and fair. This indicates that the PCGCF is adding a 'development criterion' to the poverty criterion, i.e. to support those sectors that are economically viable and can sustain local processes of development.

**FIGURE 1: INVESTMENT BY PCGCF ACCORDING TO PROVINCIAL STANDARDS OF LIVING 1989-1995**

	Very poor	Poor	Acceptable	Fair
Total investment (%)	29	40	11	20
% of Family Benefit	38	39	6	17
Approved projects (%)	29	39	12	20
Average investment per family (US\$)	207	281	550	313

Source: FONDO Peru Canada (1995) Memoria.

Linked to this policy is the PCGCF's emphasis on credit. The earliest grants were focused more towards welfare for war-affected populations but soon moved to development programmes with a commercial vision. Of the total approved for projects in 1995 (US\$8.9 million), 57% were for credit, up from approximately 20% the year before. In fact, with perhaps the single exception of the IDB's Small Projects Programme, the PCGCF is the most important supporter of (micro) credit programmes implemented by NGOs and must be considered one of the main forces behind the large number of such programmes in rural and urban environments.

<sup>15</sup> The first independent trustee had been for several years the director of DESCO, Peru's best-known and oldest NGO. He was succeeded by the person who also succeeded him at DESCO.

It has supported some 130 agencies, including local NGOs, community-based organisations, local government projects as well as some International NGOs, and the fund has prioritised rural programmes (80%) and 'economic and productive projects'. Its perceived expertise is also in small enterprise development with a premium on getting local firms involved. It uses local consultants and most of its staff comes from private enterprise or local NGOs, and this has won it contracts with USAID and UNDP.

With a view to increasing the impact of the projects it supports (and also presumably to reduce the costs of appraisal and monitoring), the PCGCF set minimum amounts for projects to be considered for funding. It has stressed the need for technical training of local NGOs, and moving a step further, it decided to foster the setting up of consortia of NGO's, both regional and thematic (i.e. small enterprise). This means that the fund could target training, administer grants and implement projects regionally, that exceeded the operational capacity of individual NGOs.<sup>16</sup> The average size of grants in 1995 was US\$307,000 up to a maximum of 3 years. This is also a move to encourage them to move from welfare to enterprise development and credit management. It would like to see the regional consortia meet up in some form of federation by the year 2000, and to become self-funded from the interest of the credit that they manage.

Credit will continue being a central element in the PCGCF's strategy managing a credit fund now valued at US\$12 million, although on the basis of its experience so far the position seems to be to support 'only those who know how to work with credit'. In each consortium the fund has supported a 'credit executing unit', the biggest (FONDESURCO) manages a US\$800,000 loan fund. But most projects have not been able to overcome the two NGO credit traps: financial insustainability and non-recovery of loans. Also, as the PCGCF lends the money to the NGOs/consortia and the lenders have to add a margin in order to cover at least part of their operational costs, peasants and micro-entrepreneurs end up paying the highest actual interest rates of the market.

Recently the PCGCF moved into the slippery field of marketing. The rationale is that although, as a result of the projects supported by the fund, peasant production has increased incomes have not, because the local markets are too small and there are marketing bottlenecks. NGOs are not good partners for this line of work, as they have neither experience nor know-how (all NGO-led marketing projects have had serious problems and only survive with heavy subsidies). So the fund is entering into marketing-based credit agreements with trading firms; in 1995 the exports made by projects supported by the PCGCF totalled approximately US\$14.2 million (80% coffee).

The EUF was established more recently in 1992 and the programme is based upon the monetising of food aid from the EU to Peru, and local currency income is given to the fund for distribution locally. It places some degree of emphasis on the poverty focus and sustainability of the programmes it funds, and it expect agencies to fix indicators in advance where possible using the log frame. It is unhappy with the general level of

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<sup>16</sup> Over the last years, Peruvian NGOs have chosen to get together in consortia of various sorts. Some have had ephemeral life while others have managed to continue operating. The experience with consortia indicates that NGOs do not tend to specialise; but simply get together in order to access to specific sources of funds. The consortia have little institutional development, although they may have a not so small staff, in comparison with the member NGOs. In more than one experience the consortium was fully funded and equipped while the member NGOs were going through financial shortages and had lost operational capacity. Currently the PCGCF's position on consortia is sceptical; nothing but the logical result of wanting to build the first floor on shaky ground.

programme management, however, and needs to improve evaluation which has so far been neglected - as well as community participation. It was helped by the older Peru Canada fund and the work of PACT in improving project formulation.

Its work is more with small provincial NGOs, mainly created in the past 5 years, with average grants in the region of US\$200,000 over an 18-month period although it is trying to extend the length of programmes. Some of these NGOs almost certainly are the product of these counterpart funds, although it is not clear to what extent these new NGOs are responding to the donors rather than to the population, and even the EU Director was unsure of this and thought that the balance probably lay with the donors. It argues that it works less with the older traditional NGOs 'because they do not have sufficient engagement in rural areas' and because these larger agencies have not provided good technical proposals and are slow to adapt and change. This may also be due to the poverty focus followed by the programme and regional distribution which is determined by a government produced poverty map. This may explain why the distribution of grants does not necessarily reflect those provinces where NGOs have traditionally been strongest.

Again it focuses on small technical programmes and enterprises, and small-scale irrigation, areas in which the EU representative felt that NGOs were often weak. Another critic put forward the case that very few small irrigation programmes had ever been successful in Peru for several reasons, and again questioned whether they were more the creation of donor expectations and desire rather than a good form of assistance.

One of the main differences between the PCGCF and these similar organisations is the structure of the governing bodies, which reflects the degree of independence from the government. The PCGCF has as one of its achievements the ability to function with autonomy from government influences (in addition to its structure of government, it has a technical and administrative staff much stronger than the other funds). The EUF has a board made up of four directors, the head of the EU delegation in Peru and three representatives from the government, two from the Ministry of the Presidency, and one is the head of Technical Cooperation of the Ministry of Foreign Affairs. As is to be expected from the composition of its board, the EUF is subject to pressures from the government representatives on the allocation of resources. In the Swiss CF, all funding decisions, irrespective of the scale, have to be endorsed by a 'bilateral committee' made up of Swiss Ambassador and one representative from the Peruvian government (Ministry of Finance at the moment). The Japanese CF works mostly with the public sector; it has its offices on the premises of the Ministry of the Presidency.

There are also differences in funding policies. The SF, for instance, only works in the rural highlands and in urban marginal areas in Lima and in the highlands. The EUF adds to this poor Amazonian areas, as does the PCGCF. The SF does not support credit schemes, with the exception of 'revolving funds'.<sup>17</sup> The PCGCF, on the other hand, has the provision of credit as a central policy element. The SF has an emphasis on management of natural resources, especially in the highlands; the PCGCF, at the other extreme, seems to be more concerned with market mechanisms. The SF likes to think of 'communal energy' as a key

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<sup>17</sup> The Peruvian experience with revolving funds has been disastrous and nowadays very few donors accept this mechanism. Plain credit schemes are widely proposed as an efficacious alternative that actually makes credit reach the poor with reasonable expectations of recovery, although as is well known these schemes also have their difficulties.

element for project success; the PCGCF, on the other hand, more realistically seems to believe in individual energies, activated by the profit motive.

With regard to relations with project holders, all three funds share the same set of regulations, drawn on the basis of the PCGCF experience: logical frames, annual operational plans, quarterly reports, standardised financial reporting, periodic monitoring and external evaluation. It also contributes a limited coverage of overheads, between 10% and 15% of direct costs at most. This means that NGOs have to cover their overheads with resources from other donors. Eventually, what happens is that Northern NGOs end up subsidising the projects funded by the CF schemes. As these traditional donors are more flexible the NGO takes resources from its projects to cover expenses the CF does not expect to finance. When this is not possible it is practically a rule that the project is receiving very little support in the way of technical assistance.

It is clear that the Canadian and EU funds now constitute a major source of NGO funding and that both have a similar focus on small enterprise delivery programmes to rural areas. What is not as clear is how much their partners are new agencies created to receive the funds on offer, both in the sense of the areas which they are willing to fund (enterprise) as well as geographically (the large number of NGOs supported in provinces such as Huancavelica which traditionally boasted very few NGOs at all). As discussed above in terms of the 'pseudo NGOs' (see Box 1) some people talk of 'official NGOs' created by government supporters to access the CF funds, and even the practice of international NGOs now accessing these counterpart funds as a way of compensating for the decline in their incomes from parent organisations in the North.

### **2.3.2. Multilateral Organisations**

As described above, multilateral organisations are part of the new phenomenon of direct funding. They are agencies which involve the cooperation between the governments of several countries to perform certain tasks in aid of international cooperation, for example through the United Nations (UN), the European Union (EU) or the World Bank (WB). Their rising importance in development cooperation is a global trend.

The extent to which the funds from the multilateral organisations can be accessed by local NGOs varies, but there is a trend of encouraging them to be responsible for projects and accessing funds specifically allocated for the respective project rather than providing them with core funding. The WB makes no grants to NGOs but in some of the government programmes it funds, NGOs can participate as contractors. This is the case mostly in projects in health and education. For instance a local NGO is in charge of a nationwide publicity campaign of family planning methods. FONCODES, partly funded by the WB, finances a vast number of NGOs to implement basic social infrastructure projects.

The WB has three officials in its Lima office in charge of projects in infrastructure and environment, social sectors and social analysis, and NGOs. The task of the social sector and analysis office is to prepare social impact indicators of the bank's projects and to work within the policy guidelines of incorporating the NGOs' point of view - as representatives of civil society - in project design and implementation.

The IDB policy differs in that until recently it had a Small Projects Programme, specially aimed at supporting micro-credit schemes run (mostly but not only) by NGOs. Since the links with the financial community were re-established under Fujimori, the IDB approved 27 new small projects, for a total of US\$13.5 million in reimbursable funds plus a non-reimbursable component of approximately US\$4 million with each institution receiving around US\$150,000. The rationale for this non-reimbursable element is that in order to become efficient providers of credits, the institutions implementing micro-credit programmes have to make an upgrading effort (get technical advice, buy new hardware and software, and train their staff) that is beyond their resources. With regard to the reimbursable part (a maximum of US\$500,000 for each institution), it is given in very soft terms; no rate of interest but a symbolic 1% commission and some 18 years repayment period. Once reimbursed, the loan and repayment are denominated in the national currency. In one case of four NGOs working with women, the IDB decided that the total amount (loanable fund plus technical cooperation) was to be considered non-reimbursable.

The IDB is changing its policy for the support of micro-enterprise, challenging resources through the state development finance corporation (COFIDE) to the banking system. Demand for credit will then be dealt with by the banks. So in the near future the IDB shall not be directly in charge of handling these small operations.

## **BOX 2 : THE NEW-FOUND PROMINENCE OF THE MULTILATERAL ORGANISATIONS**

‘One of the most significant trends in the new international cooperation scene is the rising importance of multilateral organisations. While overall cooperation flow has diminished by 18 per cent, according to the OECD, funds from multilateral organisations have risen at an annual rate of 24.6 per cent between 1988 and 1990.

There are a number of reasons which explain this. There was a rise of neo-liberalism and adjustment policies together with the UN’s mediation in conflict situations. The increase in aid to Africa occurred in a context of weak states and a dearth of NGO activity, which left the door open for multilaterals to play a leading role there. The growth of the EU was also undoubtedly a factor. Finally, there is also the fact that aid channelled through the multilaterals frees governments from having to foot administrative costs and assume political responsibility.

The prominence of the multilateral financial organisations - and of the WB in particular - is enormous. The WB has become the world’s largest supplier of financial and cooperation resources. It receives the highest volume of funds flowing into the multilateral financial organisations and it’s resources far outweigh those of the UN.

With the rising importance of these multilateral organisations comes political power and the WB’s influence extends well beyond the economic sphere - the ventures that they chose to support as well as the conditions imposed on this support have a tremendous impact. The WB also has on call a huge number of experts that make it “the world’s largest neo-liberal think-tank for the Third World”. Its interaction with the IMF, regional development banks, and at some levels, the UN itself also provide it with tremendous political control . . . In the absence of local planning bodies or of development strategies and plans, the guidelines proposed by the multilaterals have become inordinately important to economic and social policy decision-making.’

Source: Valderrama, New Directions, p.24.

The UN system works on a basis of grant funding and with international financial institutions. NGOs are sought out as collaborators bringing in their own funds and expertise and as co-implementors of aid projects in some form of cooperation with local and national governmental agencies. Government approval is often required for these arrangements to be made, however. The international financial institutions are also constrained by the government as it must be the legal recipient and guarantor of repayment, unless the funds are specific grants from donors common to structural adjustment compensation funds. But there are a growing number of examples where NGOs are designated recipients of the loans rather than the government, and the WB publishes a guide for those NGOs wishing to participate.

### **2.3.3. FONCODES**

The Peruvian government created FONCODES in 1991 in cooperation with multilateral organisations as a temporary autonomous agency deriving funds directly from the Presidency. It is modelled on the experiences of other countries, especially the Bolivian 'Fondo de Inversion Social'. The underlying rationale is that whenever a country initiates a process of structural reforms, in the way Peru has since 1991, it is necessary to protect the poorest of the population from their impact on employment, incomes and 'traditional' public expenditure. These 'social investment funds' are therefore proposed by the multilateral organisations and development banks as specific tools to reach the poor with resources addressed to increasing social infrastructure, creating temporary employment, and reactivating local economies. The need to give special attention to the poor during structural adjustment processes reinforces conceptions about what the role of the state should be in connection with poverty relief.

FONCODES finances projects of social investment in many poor areas in the country. The projects are submitted to the Fund by the beneficiaries, and FONCODES has a defined set of operational rules to carry out evaluation, implementation and supervision of the projects.

The sources of the funds have changed. Until 1993 most of the resources came from the Treasury with only 2% contributed by donors. From 1994 a significant share of the resources (35% in 1994 and 45% in 1995) came from development banks - World Bank and IDB loans also contributing to the programme.

As regard to the external sources of funds, donor contributions are paid directly to the FONCODES revolving fund, making deposits into a current account in a commercial bank. FONCODES is empowered by law to negotiate foreign resources on its own behalf. It is the Ministry of Finance who assumes the debt, however, and makes a transfer of funds contract with FONCODES. Prior to using the funds FONCODES asks for authorisation from the corresponding financial institution; the authorisation is conditional upon the disbursement of the national counterpart contribution. In order to receive new disbursements and restock the revolving fund, FONCODES has to report on the use of the previous disbursement. As is the case with any public institution, all expenses have to be considered in a budget, and expenses are subject to approval by the Ministry of Finance in a monthly calendar of disbursements.

FONCODES' philosophy is that the projects have to be demand driven, believing that participation of the beneficiaries in the management of their own development ensures sustainability of the projects and stimulates the organisation of the population for future endeavours. Any social group or institution that represents an organised community can submit a project to FONCODES. So funds are channelled through various organisations: peasant communities, NGOs and local governments. FONCODES funding is mostly in the form of donations, although the fund also finances credits for small productive projects.

Funds are allocated according to 'poverty maps' made by FONCODES on the basis of a set of indicators including chronic malnutrition, illiteracy, unemployment and lack of access to basic services. The poorest areas receive the highest priority. The executing committee designates a promoter with whom they jointly design the project. To be eligible for funding, projects have to meet the following criteria:

- The beneficiaries must correspond to the FONCODES target population of living in critical poverty.
- For each thematic area projects must benefit certain specific populations, for example mothers and children in health projects, family peasants owning less than 5 hectares in irrigation projects or peasant and native communities in sanitation projects.
- The project has to be requested by the community and have a counterpart community contribution for maintenance and self-sustainability. The communal assembly has to approve the project and elect the executing committee ('nucleo ejecutor').
- The project must have no harmful environmental effects.
- The total project cost must be below US\$250,000.

Having approved nearly 18,000 projects since its foundation to the first quarter of 1996 for a total amount of approximately US\$600 million, the scale of the operation of FONCODES, and the concentration of resources in its managerial and technical staff constitute a unique experience. It has had an important impact not only on the stock of social infrastructure in poor areas of the country but also on the institutional scenario of development.

FONCODES' policy has been to fund projects in the following four areas:

- Social assistance covering the supply of services in nutrition, health and education.
- Social infrastructure (health, education and sanitation).
- Economic infrastructure (civil works in roads and energy).
- Productive development to foster small-scale productive activities in agriculture, industry, fisheries and commerce.

The allocation of FONCODES resources has been consistent with its declared objectives: approximately 70% has been spent in provinces classified as poor or very poor and expenditure per capita is higher in the areas with a lower standard of living. About 60% of the funds were designated to social infrastructure, with construction of schools receiving by far the highest share. An additional 26% was spent on economic infrastructure and 10% on social assistance, and only 4% corresponds to productive development projects. In the present stage (FONCODES II) the declared policy is to reverse this pattern of allocation in favour of supporting production and economic infrastructure.

Despite having clear objectives and an organised administration, the operation of FONCODES has taken place paying practically no attention to the experience accumulated in some 25 years of development projects implemented both by government agencies and by NGOs. Thus it is not unexpected that many of the things

that FONCODES does fall neatly within the ‘do-nots’ of development. Taking the construction of primary schools which is FONCODES’ main activity, one should make sure that there exists the human resources to staff the school as well as sufficient funds to pay the running expenses, which is not necessarily the case. Building schools is an easy and not unusual way to assist the poor but possibly other projects would be more meaningful in terms of what a given community needs and what could have more impact.

This highlights one of the key difficulties with FONCODES’ demand driven system. This assumes that very poor communities have the capability to initiate the process by identifying their more urgent needs, to then formulate a project, to submit it to FONCODES and eventually to be in charge of the project’s implementation. In fact what has happened is that in the vast majority of cases this entire process has been conducted by operators external to the communities, for example an NGO. They have acted as animators, project formulators, have administered all the paper work at FONCODES and finally have been put in charge of implementing the project. Thus, although in theory there exists a division of labour, with the community identifying the needs and an external operator helping to design a project and then playing the central role in actual implementation, in practice perhaps in most cases the NGO ‘has to do everything’.

In the FONCODES regulations there is recognition of the intervention of external agents, called ‘inspectors’ to whom a fee is paid for the services rendered. With this incentive in a situation of widespread underemployment and unemployment amongst public servants it should not be surprising that these operators are abundant. Doubt arises about the extent to which the projects actually respond to community needs or rather to the initiative of the external agents, who in many cases are trying to create jobs for themselves. As illustrated in the case of Ayacucho, the operation of FONCODES has been the direct cause of a huge increase in the number of NGOs. They even adopt the legal form of NGO in order to qualify to act as ‘inspectors’. Despite these criticisms, according to a recent opinion poll, 40% of the population have a positive opinion of the work of FONCODES, 29% think it is good, 8% find it very good and 3% think it is excellent. Of the people asked 38% think that FONCODES’ work is barely acceptable and only 7% think it is bad.

### **3. Findings**

#### **3.1. Findings from Interviews: NGOs on Direct Funding**

This section is a brief summary of the activities of certain key participants/organisations, and is devoted to understanding the implications of direct funding as seen by the actors involved from both the North and the South.

##### **3.1.1. Official Agencies**

*USAID*

USAID funded virtually no NGO work in Peru directly and focused on infrastructure development around fifteen years ago. Since then its NGO programme has grown considerably partly because the limitations of earlier Peruvian governments have now been overcome but also as a policy decision to support the NGO sector. It also reflects a desire to support democracy and stability, against the Shining Path and the considerable drug industry. USAID is now the largest source of funds for NGOs in Peru (although funding is spread over several different programmes). It should be noted, however, that despite this there has still been an overall drop in USAID funds to the country from a high of US\$130 million a year in 1995 to US\$90 million annually for five years after 1997 (a cut of 30% in real terms). This reduction is explained by USAID's overall cuts in development assistance and the consequent process of globally restructuring, involving a reduction in the number of offices worldwide to channel significant volumes of funding to the Middle East, Eastern Europe and South Africa in the long term.

Funding is spread over several different programmes with the following overriding programme priorities:

- Increased participation of citizens in democratic processes (this includes funds for a peace scholarship programme, narcotics education, justice sector support, participatory democracy and private sector institutional reform).
- Increased incomes and employment of the poor by implementing a micro-enterprise and small producers project and a PVO support programme.
- Improved food security of the extremely poor.
- Improved health of the poor by strengthening health institutions, funding university research and implementing private commercial family planning.
- Environmental and natural resource management which includes nature conservancy and pest management.

The focus of USAID's assistance to Peru has also changed in line with the strategic framework for 1995-6 at the world level over the last years.<sup>18</sup> In 1990-2 the agency supplied bridge funding to the Peruvian government so that it could normalise the service of its debt to the IDB (approximately US\$40 million). In 1994-5 USAID supported a large food programme, mostly oriented to subsidising 'comedores populares',<sup>19</sup> for a total of US\$70 million. In line with the recovery of the national economy, this programme is changing both in volume (less money; an average of US\$40 million a year for the next few

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<sup>18</sup> The agency mission is 'sustainable development', with five goals: broad-based economic growth achieved; sustainable democracies built; world's population stabilized and human health protected in a sustainable fashion; environment managed for long-term sustainability; lives saved, suffering reduced and development potential reinforced.

<sup>19</sup> 'Comedores populares' are grass-roots organisations in urban marginal areas, devoted to the preparation and delivery of meals to low income population. As a rule, these initiatives are run by organised groups of women and have managed to develop well-articulated networks, involved in the distribution of foodstuffs supplied by various agencies. The comedores grew to become a very important social movement, especially in the worst years of economic crisis, towards the end of the 80s and beginning of the 90s, following the dramatic start of President Fujimori's policy of fiscal equilibrium and structural adjustment. In those days there were literally thousands of comedores in Lima and also in the main cities. Silently and beneath the apparent normality of daily life, the comedores helped feed millions of poor people and still continue doing it. Over time these organizations are moving towards financial sustainability, trying to progressively cover their running costs with the proceedings from the sale of meals (at very low prices).

years) and emphasis, now encouraging the coverage of costs with small revolving funds administered by the women who run the comedores. Other lines in its food assistance include food for work programmes in the rural sector, and nutritional rehabilitation; NGOs such as CARITAS, CARE and PRISMA work with USAID in these programmes.

A further US\$15 million is devoted to alternative development, such as supporting viable productive alternatives for farmers in the coca growing areas, a programme so far particularly ill-devised and unsuccessful. The remaining US\$35 million a year is distributed amongst all the other programmes. USAID prioritises the improvement of producers' access to markets, subject to its MSP programme with ADEX, a national organisation of exporters. In the context of this programme, USAID has contracts with 20 NGOs, 10 to act as financial intermediaries and 10 organisations of producers. The programme includes both farmers and urban micro-entrepreneurs.

They are aware of some of the problems created by such large funding, however, and concerned about the sustainability of the democracy programme and how to maintain the process without creating dependence. It is hard to see how the programmes could be sustainable or who could possibly meet such large budgets in the future, for example local NGOs - including Manuela Ramos (see below) were encountered - who are receiving large grants of between US\$17 and US\$20 million.

USAID had put its own staff into these agencies from the controllers office to revise all accounting, procurement and other policies and procedures to ensure they matched with the US requirements. Having said that, in theory it only gives a grant on the assumption that the recipient has the capacity to deal with it. This it ensures by carrying out a 'pre-award audit' of the capacity of the intended recipient which looks at financial and procurement systems, and it also looks at organisational capacity. The grants are large and USAID assesses the abilities of the recipient first. But the high level of technical and financial requirements imposed by USAID can be problematic as this increases their overhead costs and hence makes them less competitive when seeking funds elsewhere.

What is not clear is what happens to such NGOs at the end of USAID funding and how sustainability has been served. USAID has argued that local resources can and should be mobilised, and it has also argued for tax breaks on local corporate giving in the country - although there is no evidence that either of these could meet the resource requirements or equal its funding levels. It seems that USAID is are critical of the inability of the NGOs to develop their own strategy to cope with this roller coaster type of funding, despite the fact that the local NGO's survival may be at stake due to their dependence on USAID.

It also has a system where it makes some grants via competitive tendering; USAID identifies a need and then looks for an agency to implement it. This is a common practice in the USA and hence the fact that PACT and CARE are accustomed to it. But this is a new system for Peru and therefore the NGOs are finding difficulties in formulating proposals, and often consortia have been formed to obtain such grants.

### ***Inter-American Fund (IAF)***

Although not exactly a government agency the IAF receives its funds from the US Treasury, and it finances a number of development projects that fall within the foundation's grass-roots approach with a yearly project budget for Peru in the region of US\$1.5 million. Recently the IAF has been promoting an initiative of 'social responsibility' whereby private Latin American firms can contribute to the financing of development projects in the countries where they operate. This initiative is in operation in Colombia and initial meetings have been held in Peru, although in the context of the process of structural adjustment the country is going through, it appears that very few firms can engage seriously in this sort of commitment, except transnational firms in mining, oil and utilities.

### ***CIDA, Canada***

Peru has been the most significant recipient of Canadian official assistance in Latin America for several years. The CIDA programme is not only the oldest, but is also the largest and should remain so for at least the next five years. This follows a move by Canada to look South and away from Africa.

In addition to the considerable CIDA co-funding of Canadian NGOs, there are several large Canadian NGO programmes in Peru. The Canadian embassy administers a variety of projects such as economic support programmes designed to provide mining, petroleum and telecommunications equipment to Peru, which produces Can\$10million for the CF described above, food aid (some of which is monetised), and an economic research consortium made up of a mix of local universities and NGO research centres.

Overall it is clear that most of the programmes go through NGOs, especially Canadian NGOs. The programmes listed are funded from the embassy so they tend to favour the larger Canadian NGOs with some degree of existing field presence. It will be interesting to see what happens in the future as the core budgets of some of these agencies are cut back in Canada which may reduce their ability to maintain field offices and hence cut them off from being able to access government funds via the local CIDA representative. CIDA is reconsidering funding the Peruvian government again now that the crisis has passed and the credibility of the government increased.

### ***ODA, British Council***

In line with general trends elsewhere in Latin America the British ODA assistance programme in Peru is not very large. There is, however, a thriving British Council which has always been involved in English teaching and local Peruvian cultural activities. Most, if not all, of the ODA programme is now administered through the Council possibly because they are so active, and the ODA have placed their main Technical Cooperation Officer there. They are concentrating their programme on a single sector to develop various health programmes in the country. They have a two pronged strategy:

- To work with the Ministry of Health prioritising at-risk groups and providing basic health care.

- To boost reproductive health and family planning in rural marginal areas in cooperation with CARE, community-based district health centres and the Ministry of Health hospital outreach/clinics.

Although these programmes are managed locally, they are channelled through NNGOs such as CARE, ITDG and Marie Stopes, rather than the local NGOs.

### **3.1.2. International NGOs**

#### ***OXFAM America***

In contrast to OXFAM UKI (see above) and rather than looking to CFs, multilateral and bilateral organisations, Oxfam America have explored novel sources of funding and have built on to their contacts with Amazonian jungle groups. They have exploited debt swaps for the environment into scaling up many of their programmes, and using regional Amazonian fora they have been able to design appropriate programmes. In fact many new NGOs have emerged to move into this environmental area and exploit the new sources of money for the rain forest. For example the ‘Carbon Offset’ programmes have been a source of money for Oxfam America in conjunction with some local NGOs, in which US coal burning power stations have to invest in the protection of forests as an offset to the increased carbon dioxide in the atmosphere. They have a deal with an American power plant over 10 years, and they have people working on this in conjunction with the local NGOs on the programme sites, integrating field level surveys with satellite and geographical information systems. If the programme continues to develop they hope to use some of the resources to establish trust funds for the future and to carry out longer-term planning.

#### ***Catholic Relief Services (CRS)***

CRS has been in Peru for many years although primarily as the US government agent for food aid. CRS only recently started to hand over the food aid administration to the local CARITAS. They have done this in part because they have changed to becoming far more involved in both programme work and as a donor agency. There is talk of ten-year programme to modernise CRS and move away from food aid to credit and other programmes. Clearly CRS is not a local NGO and they feel it important to state this (in contrast to ITDG, see Box 1) to avoid a governance issue. Although as concern grows over congressional cuts in aid budgets they are keen to try to raise more independent funds. They regard their role as helping local NGOs access big money from official donors. They do not plan to phase out their work as many smaller NGOs and church groups are unable to deal with large donors. In their opinion these local NGOs are unlikely to grow to a size where they could deal with official donors independently as scaling-up of their organisation weakens their mission and vision.

CRS also sees its role to develop field methods, such as participatory methodologies, and participatory planning at a practical rather than theoretical level, hence training programmes and access to funds for small provincial NGOs, as in their opinion this fits with a greater need for NGOs to specialise and to create strategic alliances. They have followed this aim with larger projects or groups of projects coordinating between a

number of different sources of funding including monetised food aid, CFs and multilateral banks, and the client NGOs.

### **3.1.3. Local NGOs**

As well as being the target of these changes in funding mechanisms, local NGOs are also at the receiving end of them. Local NGOs such as DESCO have noted reduced NNGO funding and increased official funding, although overall reduction is less noticeable because Peru, unlike other Latin American countries, is still considered a priority. DESCO itself has relied on its past reputation, although it has restructured and set up a consultancy department to get more self-generated income to supplement the drop in funding. As well as changes in volume, another trend they note is that grants from the NNGO donors are being replaced by contractual type funding via the government and WB. They have also noted a tendency of some major donors such as Cebemo Bilance to concentrate their support on fewer partners (in this case a reduction from 60 to 20). Despite this they estimate a 25% increase in the number of NGOs since 1990 due to new official funds and state contracts. Although the NGOs criticise FONCODES and other programmes, they target funds from them to survive. Partnership and solidarity seem to have been removed from the donor agenda, while social emergency funds are tied to the idea of a political safety net rather than development.

They feel official funding is often unbalanced: massive USAID funding for national population programmes, for example, but little account is taken of community needs. The local NGOs comment that the surviving NNGOs are suddenly demanding more accounts and efficiency reports, in contrast to their expectations in the past. As CEPES noted in a research proposal:

Today the idea of social transformation has been diluted and an orientation to the popular movement has been replaced in many NGOs by a technical orientation . . . There has been a crisis in the paradigms and models of development which had inspired the work of both Northern and Southern NGOs. The promotional work associated with a conception of integrated development and the idea of structural change to be implemented through a popular movement which would lead to a reoriented society based on justice and solidarity has been lost.

CEPES also say that as European NGOs change and absorb the prevailing neo-liberal ideology

we see the end of solidarity and the beginning of an era of pragmatism and efficiency.

The SNGOs are apprised of the changes that are occurring. They are very aware that they need to understand what can be attributed to the changes in policies of northern agencies (official and NGO) and what lies at the door of local trends (the war, political evolution, etc.).

Their concerns include the death of development as an issue, and there is a question regarding a new model or framework around which development can be understood in the new Peruvian context of a stagnating economy, small public sector budgets, an increased informal sector and individualisation - as opposed to formal sector employment - which are disassociated from the tax base and hence negate any chance that the state could increase social spending. Although the present government may

have achieved economic stability with some evidence of growth, there is a feeling amongst the NGO community that they completely lacked perspective or vision as regards any development policy.

### *Views from Peruvian NGO Directors*

The following section is based on a small workshop held in Lima to discuss some of the initial findings of the present research programme with NGO Directors.<sup>20</sup>

The changes in Peruvian NGOs, and the fact that they are turning into a sort of contractor to official agency funded projects is seen as a widespread process reaching through all the sector. The participants generally agreed that this process is induced by changes in attitudes and agendas towards cooperation in donor countries. Thus, issues such as accountability to the taxpayer and to parliament have led cooperation agencies to change their demands of their overseas partners to include efficient management of resources, measurable impacts, and cost - benefit analyses of their projects. These changes affect both NNGOs and government agencies but are more effective in the latter, as they are entirely dependent on fiscal resources.

For some participants the process had to do with mutual influences between entrepreneurial and NGO discourses. While the NGOs are concerned with efficiency, entrepreneurial discourse has incorporated concepts such as empowerment, and the inverted pyramid. In parallel with this, cooperation institutions in the North are changing their agendas and the actual contents of cooperation. As mentioned above, IAF has focused on two subjects: local development and social responsibility.

It was also argued that, in spite of all these changes, many NGOs are making an effort to work out alternative proposals, in which emphasis is made on participative processes (for diagnosis and decision-making, mostly at local scale) and good technical solutions. In this sense, the need to systematise contributions made by NGOs in many fields was mentioned in relation to the NGOs' self-perception as purely executing agencies without potential capacity.

The issue of the northern governments' policy on direct funding was only touched upon when discussing the effects of direct funding on NGOs, mostly referring to the question of accountability mentioned above. There was also reference to the increased cost of operating through NNGOs, as compared to directly channelling funds to SNGOs.

In discussing the implications of direct funding on civil society the participants agreed with the argument that, at least in the case of Peru, it was neither fair nor accurate to give direct funding a causal role in the 'impoverishment' of alternative proposals coming from civil society. If this is actually the case, it has a lot more to do with internal social processes and with the way in which the population is adapting its own survival strategies in the context of those processes, than the rise in direct funding.

But it is also true that the mechanism of direct funding does not permit financing of activities aimed at reconstructing the social 'tissues' of society such as local grass-root

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<sup>20</sup> Thanks to Mariano Valderamma and CEPES for organising the workshop for this study.

organisations, and democratic and human rights organisations in general. These sorts of project are very much needed in Peru and are almost only supported by NNGOs. As an example, one of the participants mentioned experiences of concerted action between COICA and AIDSESEP to support a campaign for citizens unjustly jailed under accusations of being Shining Path guerrillas. Reference was also made to a project on conflict resolution carried out by CRS.

The participants saw an interesting and ample role for direct funding in this field, which they thought should be encouraged despite its vicinity with 'political' issues. According to the participants' knowledge the only significant experience in this area is the Fund for Participatory Democracy, established by USAID and given in administration to GRADE, a Lima NGO. This three-year fund is for the following areas: institutional support; citizen education; democratic leadership, and spaces of consensus.

## 4. Review of Case Studies

### 4.1. The Reposalud Project

This is a project in reproductive health, implemented at the national level by an NGO named 'Manuela Ramos' (MR) and funded by USAID. MR is one of the oldest NGOs working with women and has 18 years experience with women's health projects. In all these projects, MR placed a fundamental emphasis on women's sexual rights, and on the relationship between health and sexuality; currently both subjects are included within the wider concept of reproductive health, which is the subject of the project. In addition to health, MR has projects in income generation and legal counselling.

The Reposalud Project originated in a tender called by USAID for a 'cooperation agreement' with local NGOs working in reproductive health. USAID had to choose between two proposals led by the two most important feminist NGOs - Manuela Ramos and Centro de Promocion de la Mujer Flora Tristan - who associated with two other experienced NGOs, ALTERNATIVA and FOVIDA, respectively. The associations aimed to add to the expertise in implementation of micro-credit programmes, the experience of women's health projects, as the project considered that no lasting improvement in women's health could be achieved without an improvement in their incomes.

There are several aspects in this project that make it an interesting case of direct funding to NGOs. First, the volume of resources involved: US\$25 million over five years. According to the project director, no other NGO has ever received so much funding for this sort of project. So MR is receiving from a single source and for a single project a volume of funds equal to several times its total income from all other sources for all other projects. In terms of staff, Reposalud has 60 people on the payroll, almost twice the total personnel of MR.

Second, in order to comply with USAID's rather rigid administrative procedures, MR has had to make a significant effort in the upgrading of administrative practices. This took three months and was funded by the institution itself (although expenses were reimbursed once MR completed the upgrading process), and as a result MR set up an independent administration system to meet USAID requirements. In general, administration practices have been significantly improved although it is not clear whether this improvement has also taken place in the other projects MR implements or if it is only effective in Reposalud.

Third, it is interesting to point out the extent to which a process of convergence in objectives and methodologies has taken place that results in a cooperative agreement between an originally radical left feminist NGO and USAID. According to the project director, MR has not changed its position, suggesting that changes have taken place in USAID's policy. These changes would be due to a great extent to the influence of some USAID officers, however, whose approach to community participation and reproductive health has a lot in common with the position of NGOs such as MR. But the case of this

project should not be taken as representative of USAID's policy, as 'AID is not monolithic'.

It is clear that there are disadvantages in this association with USAID for MR. The Reprosalud Project puts the institutional capability of MR under strain. Several key cadres have left their previous positions in other projects, including MR's general co-ordinator, now director of Reprosalud. It is reasonable to expect that this reshuffle of cadres has had some adverse effect on their other projects, which presumably had to absorb some decrease in efficiency until the replacements were fully trained. MR also now has two different salary scales: MR's old salary scale, and Reprosalud's higher one. The project has also made it necessary to hire specialists from outside the institution, who are paid more than MR's existing staff. The Reprosalud Project is also much better equipped than the rest of the MR projects. No doubt these asymmetries have some effects on the staff's morale, particularly given MR's discourse of equality, commitment and social service. Other pressures include lack of adequate office space, an issue that is being solved with an expansion of premises, and generally cumbersome bureaucratic activities that absorb significant time and demand effort from MR's management.

It seems that MR has made its own balance of all these aspects and finds the net result very positive. The management of Reprosalud is satisfied that they are not being diverted by the project from what they were already doing, albeit at a much smaller scale. At the same time, they affirm that their administrative functioning was already quite efficient so Reprosalud did not require an extraordinary effort for upgrading MR's procedures. A not insignificant advantage is that the 10% overhead permitted by USAID can increase MR's income by US\$500,000 a year over the next five years. MR negotiates with USAID other ways in which the overhead can be used to pay for services rendered by its income generation, legal and communication programmes as well as the sharing of expenses between Reprosalud and MR.

Above all else, both MR and ALTERNATIVA who co-authored the proposal but are not actually participating in the project (allegedly because the cadres that were to be in charge left the institution) recognise that they are becoming specialised service providers and emphasise that specialisation and efficiency are the roads to NGO sustainability. Both seem to take pride in becoming efficient and professional service providers. The director of ALTERNATIVA explained in detail the bids they have taken part in and how they managed to win over equally qualified and well-known competitors in some of the best Peruvian universities and private firms. Thus, while MR specialises in reproductive health and also micro-credit, ALTERNATIVA covers services of collection and disposal of garbage at local level by micro-enterprises, has a portfolio of over 1,500 micro-credits and runs a small employment exchange service.

Obviously both institutions see themselves as increasingly efficient providers of specialised services operating in a highly competitive environment. Both stress that it is necessary to continue to improve their planning and operation, using all sorts of management techniques and recruiting whatever specialists they need. This is a far cry from their original discourse; as the ALTERNATIVA director put it 'in the past our proposals had many pages of ideological declarations and only one page at the end with a brief description of the project and a budget; nowadays it is the other way round'. But this process is not exempt of identity problems; in the course of the interviews occasionally

there was some hesitation about what they are actually doing, as compared to their original social objectives and all the effort put in over several years in working closely with the population they had chosen to serve; 'we may be compromising our capability to think, to look for new alternatives . . . it is as if we all have plugged in too easily', whispered an NGO director.

The shift towards professionalisation and service supply is a reaction to several facts and trends. In addition to the collapse of socialist paradigms all over the world, in Peru - unlike Chile, for instance - traditional party politics and political discourses in general are deeply discredited. The radical implementation of neo-liberal reforms has significantly reduced the number of formal factory workers and public employees; the whole legal framework of industrial relations has been deregulated. The notion that organised dwellers of marginal urban areas can mobilise and press decision-makers to access public services has weakened, as it is associated with a populist state, the widely accepted culprit of the country's economic woes. In what is a blatant contradiction with the rejection of populism, Peru's President himself establishes a relationship with the population (mainly dwellers of urban marginal areas, his electoral stronghold) and sees to it that they get the public services, calling this 'direct democracy'. With the failure of the military's agrarian reform and the crisis of the political parties, the peasant movement is virtually non-existent. In fact, the NGOs have lost their traditional political paradigms as well as their social base.

All this while the media exposes the public to endless messages about globalisation, competitiveness and the need to maximise efficiency. Northern analysts of cooperation with SNGOs are very critical of the actual impact of NGO projects and introduce the issue of 'sustainability' - in some loosely defined way referring to the capability of a given NGO to reach financial self-sufficiency. The Northern partners themselves are insecure about the future course of events, subject as they are to criticism in their own countries, budget cuts and new demands from Eastern Europe and politically troubled or poorer areas.

In this context, it is hardly surprising that 'old' (relatively big, experienced and well-staffed) NGOs like MR and ALTERNATIVA increasingly think of themselves as efficient providers of specialised services. It is not often taken into account, however, that these entrepreneurial developments are built upon an important subsidy base. The NGOs capital base and know-how, for instance, are the result of many years of cooperation from NNGOs. Even now most NGO credit programmes could not function without a (not so hidden) subsidy from the NGO's other programmes, in terms of personnel, equipment and also funding of part of the operational costs. So the move towards a private firm like efficiency is not a complete one; operations of even the more efficient NGOs still rely to a great extent on an accumulation of tangible and non-tangible assets obtained thanks to the cooperation of NNGOs in the past and on current grants.

In this sense it can be argued that NGOs are not 'fair' competitors with small private contractors. Other advantages of NGOs include exemptions from import duties (on specific conditions and previously several administrative procedures) and income tax. An important competitive advantage of NGOs is that the level of salaries of technical staff is low, when compared to the salaries for similar expertise in private firms (this is particularly clear in the case of credit programmes). The NGOs' former discourse of commitment and contribution to social change explains the relatively low level of these salaries. But as this discourse is being replaced by the emphasis on efficiency and professionalism, and the

promoters or animators are turning into technicians, and quite often the NGO has to recruit specialists paying them higher salaries, the basis for salary restraint is eroding. Nevertheless most NGOs cannot afford to increase the level of salaries, leading to an increased turnover of staff. Many experienced NGO cadres have been recruited by the CFs, bilateral and multilateral projects, transnational oil firms (to manage relations with Indian communities), banks (to take charge of lending to micro-enterprises) and government programmes (to staff newly created development and other public agencies).

## 4.2. The Case of Ayacucho

Towards the beginning of the 1980, Ayacucho was a small colonial city, the capital of a poor province, mostly rural, known nationwide as a place of gifted artisans and musicians and whose main economic dynamism came from the provision of services to the students of its old university. As was the case in all public universities, Ayacucho had a very politicised atmosphere, entirely dominated by the main left-wing political parties. Most lecturers and students engaged themselves in fierce left-wing polemics about politics and theoretical issues of economic development. The university was a centre of discussion and confrontation of ideas. But, unlike most other public universities, underneath the politics one could also find serious academic work in several fields and an authentic concern for regional development. Professionals and intellectuals could not be understood and socially accepted if they were not politically aware and committed to the cause of social revolution and development.

So as various professionals (engineers, sociologists, anthropologists, economists) looked for more appropriate and flexible spaces to put into practice their ideas and skills, they started to set up small NGOs dedicated to the promotion of rural development. Some of these NGOs, that we will later call 'traditional' or 'historical', had a double purpose: implementing promotion projects while also obtaining funding for applied research and regional studies away from the highly politicised university environment, which in this respect could have a paralysing effect. In line with current conceptions about the social function of universities, Ayacucho funded a Centro de Capacitacion Campesina (CCC), for all practical purposes an NGO but ruled by a board of university authorities (heads of the university social extension office as well as the faculties of engineering and social sciences).

The main features of this initial array of NGOs were:

- They were few (four) and small.<sup>21</sup> At its height, CCC totalled around 30 people, including promoters, part-timers and administrative personnel, and had the biggest staff.
- They developed specialised profiles quite quickly. CCC was strong in peasant work with a participatory approach, tried to strengthen traditional community organisation and use it for 'appropriate' projects<sup>22</sup> and adopted a less technical methodology, emphasising the permanence of their promoters in the field. TADEPA became a sort of

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<sup>21</sup> Besides CCC, Centro de Desarrollo Agropecuario (CEDAP), Taller de Promocion Andina (TADEPA) and Instituto de Estudios Regionales (IER).

<sup>22</sup> A characteristic feature of CCC's approach was the emphasis on projects arising from community needs, discussed and approved in communal assemblies, and implemented through communal customs and institutions.

small rural engineering agency. CEDAP viewed peasant organisation from a political perspective and implemented projects with a strong technical component. IER had a more intellectual profile, aiming at becoming a centre for regional studies.

- As regards funding, none of them had access to large grants. All the funding came from private agencies (HIVOS, OXFAM, Bread for the World, Terre des Hommes, etc.). In fact, unlike places such as Cuzco and Puno, Ayacucho did not seem to be very attractive for donors.
- Politics were present, in the sense that NGOs were identified with left-wing parties; a critical observer called them 'the financial arm of the parties'.
- Despite its small size and reduced number, the Ayacucho NGO's anticipated much of what was to become the accepted methodology and practice of most NGOs in the Andean highlands.<sup>23</sup>

Almost in parallel with the foundation and initial experiences of the Ayacucho's NGO, a small radical left political party grew and gained supporters in the locality. It called itself, as many other left wing parties did, 'Partido Comunista del Peru', although it was commonly known as 'Shining Path', an abbreviation of the phrase they themselves wrote under their name to distinguish their party from the other Peruvian communist parties - 'Along Mariategui's Shining Path'.<sup>24</sup> A characteristic of the Shining Path (SP) is that it was strong only in Ayacucho's university, where it managed to place militants and supporters in positions of authority and as lecturers. It also had a large following amongst students.<sup>25</sup> In 1980 SP, called 'the folkloric left' by observers of Peruvian politics, declared that objective and subjective conditions were ripe for armed struggle. In a symbolic gesture that signalled the beginning of their version of guerrilla warfare they seized and burned the votes cast in the Presidential election in the since famous peasant community of Chuschi.

Two years later, what seemed just another folkloric gesture of the SP had developed into a bloody rural guerrilla war. This prompted the armed forces to apply the so-called 'dirty war' strategy<sup>26</sup> between 1983 and 1994 based on a system of terror and massacres in the countryside and even in the city.

NGOs were caught between both sides.<sup>27</sup> Although they made attempts to continue working in the countryside it became impossible to go into the field without risking the lives of the teams.<sup>28</sup> They reduced their activities to a minimum and searched for

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<sup>23</sup> For instance, CCC, under the guidance of a couple of Dutch cooperants, developed a participatory approach to peasant development and an emphasis on self-valuation practices that was pioneer in the country. TADEPA managed to develop practical models for small drinking water and communal infrastructure projects; etc.

<sup>24</sup> Jose Carlos Mariategui (1894 - 1929) was an intellectual and politician who argued that revolutionaries had to use Marxism as a tool and adapt it to interpret Peruvian reality, instead of following strategies and prescriptions arising from other realities. He developed this approach in a famous book entitled "Seven Essays of Interpretation of Peruvian Reality".

<sup>25</sup> See, Carlos Iván Degregori, 'Los Orígenes de Sendero Luminoso', 1991, IEP, for an analysis of the social factors underlying the ascent of SP in Ayacucho.

<sup>26</sup> Inspired in the Argentinean military doctrine of the 70s to crush the operations of the two armed groups, People's Revolutionary Army and Montoneros, which was achieved at a death estimated in 30,000 people.

<sup>27</sup> Michael Smith, 'Entre Dos Fuegos', 1992, IEP, deals with the problems faced by NGOs due to SP's guerrilla warfare and its repression by the armed forces.

<sup>28</sup> Thus, for example, a car of CEDAP's health project was burned by a SP column and the staff summoned to leave the countryside. The director of IER was captured by the police, kept for 15 days under arrest, questioned and tortured and only released after mounting pressure from Lima institutions of research and personalities of the academic world. Many persons were forced to

mechanisms to exchange information in order to keep abreast of developments in the war between SP and the armed forces. The institutionalisation of these mechanisms was the creation of CIDRA (Interinstitutional Committee for Ayacucho Rural Development), aimed at exchange of information and coordination amongst NGOs and at the organisation of activities such as forums.

In spite of the situation of violence, the number of NGOs increased. Towards 1992 there were about 11 NGOs linked to CIDRA. Vecinos Peru, presently one of the biggest in Ayacucho, was created in Lima in 1986.<sup>29</sup> Other smaller NGOs, like Centro de Investigacion y Promocion para el Desarrollo and Centro de Estudios y Asesoría Agrícola INTI were created in the second half of the 1980s.<sup>30</sup> The pattern was one of small institutions, founded by local professionals (several of them former staff of bigger NGOs), carrying out low-profile food security/emergency activities in rural areas on grants from private donor agencies (OXFAM UKI, OXFAM America, Terre des Hommes, etc.).

Between 1985 and 1992 the inflow of cooperation resources into Ayacucho was very small as a result of the war situation. In the countryside, armed skirmishes happened frequently as the armed forces put into practice a strategy of organising and arming groups of peasants to clash with the SP columns.<sup>31</sup> But after the leadership of the SP was captured in 1992, the situation began to change rapidly.

The first relatively large new inflow of resources to NGOs was a result of the operation of the PCGCF. By 1992 the PCGCF had decided to open a line of work with a consortia of NGOs. The rationale was that in order to achieve significant impact it was necessary to reach a scale of operation that exceeded the capabilities of individual NGOs. The solution was to foster their organisation into development consortia (i.e. groups of NGOs implementing a common programme agreed upon with the PCGCF). In the case of Ayacucho, this consortium already existed so the NGOs put together a first proposal presented as an emergency programme to support peasant communities basically with credit and technical assistance, with a total budget of approximately US\$500,000. This programme was then followed by others focusing on drought relief and a fund for small credits to peasants (approximately US\$180,000, which in the local context was relatively significant).

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leave Ayacucho because their lives were in danger, either because they supported SP and feared assassination by the paramilitary or because they had at some point opposed SP and were afraid of retaliation, or innocents accused of either, or even both.

<sup>29</sup> Vecinos Perú was created by and succeeded World Neighbours. Over its first five years it was funded by WN. Later it received funding from the Population Council, UNDP, CRS, CARE (main source of funds), EUF, PCGCF and PACT. VP was the first NGO working in family planning in rural areas and in general was more technically oriented than the four "historic" NGOs. In 1992-1994 VP made 108 construction projects with FONCODES (70 of them schools), for a total of \$ 1.5 million. In June 1996 VP had five projects and a staff of 22 technicians in Ayacucho and 4 in Lima, in the coordination office. Additionally, with CEDAP it conducts "Rasuwillca", a credit programme with a \$380,000 fund from the PCGCF.

<sup>30</sup> CIPPD was funded in 1986 and CEAA INTI in 1989. CIPPD works in the Amazonian area of Ayacucho (funded by Terre des Hommes) and in rural development in a highlands area (with CIDRA/PCCF). Although based in Ayacucho, most of CEAA INTI's work has been done in Huancavelica, basically in emergency/food security in zones affected by violence, support to displaced people and, since 1994, rural credit and development (funds from OXFAM America (terminated), Consejería en Proyectos para Refugiados, CIDRA/PCCF and PACT).

<sup>31</sup> The 'dirty war' period was relatively brief (1983-4). The repressive excesses of the armed forces caused the reaction of human rights and other organizations of civil society. Between 1985 and 1990, during the period of President Garcia there did not seem to be a clear strategy to fight SP. It is only after President Fujimori took office in August 1990 that the armed forces decidedly engaged in organizing and arming groups of peasants to attack SP and keep it out of areas previously 'cleaned up' by the army. This strategy was actually not rejected by the peasantry both because in its interactions with the communities SP had acted ruthlessly and, not least, because during the dirty war days many communities had been harshly punished for sympathising with SP. This is why many zones were kept under armed forces control in 1990-2. This was made easier by the shift of the main theatre of guerrilla operations to the cities, especially Lima, and to some areas of tropical forest. After the capture of the leadership of SP calm returned strikingly fast to Ayacucho and its countryside.

With the end of the war a number of donors and government programmes began to operate in Ayacucho or increase the level of their commitment. The Swiss CF, for instance, negotiated a US\$2 million three year grant with a consortium of four NGOs (CCC, CEDAP, IER and Chirapaq) for a programme of relief and development in rural areas. The EUF and Japan CF also support projects in Ayacucho. *Consejería en Proyectos para Refugiados* funds several projects with displaced people. Before this surge of funds, FONCODES began operations, basically in the construction of schools and communal drinking water schemes, with important volumes of resources to spend in its priority areas (districts ranked as extremely and very poor, in FONCODES' poverty map). Starting in 1996, FONCODES spending focused on 'productive development' infrastructure projects, such as irrigation works, rather than social infrastructure. Its budget for 1996 was US\$12 million.

In the beginning of the 1990s, PACT conducted a study of NGOs at the national level. On the basis of the results of this study it was decided to initiate a programme of institutional strengthening for NGOs, funded by AID. The underlying idea was that NGOs needed support to develop their capabilities to operate institutionally. The programme covers accountancy, offering free of charge an accountancy packet specially designed for NGOs, and institutional development defined in terms of training to NGO directive staff in management tools such as strategic and operational planning, logical frameworks and monitoring and evaluation techniques. In Ayacucho, PACT has a cooperation agreement with CIDRA to conduct the management training programme with its associates.

This sudden availability of funding stimulated an increase in the number of NGOs in Ayacucho. Although the actual number is not known, the director of one historic NGO spoke of 80-90, of which some 30-40 are active. An officer at FONCODES' local office said that they permanently work with about 40 NGOs although acknowledged the fact that many of these are not 'real NGOs'.

First- and second- generation NGOs have had working agreements with FONCODES, as illustrated by *Vecinos Peru's* experience, but at the moment seem to prefer to concentrate on their own projects. This shift may be due to a change in the rules to determine the payment for services promoting and actually executing the project, previously estimated as 5% of the total cost. The current practice is that FONCODES determines this payment not using objective criteria (the 5%, for instance); rather, payments are estimated in a more subjective manner and presumably this means lower sums. Lower fees discourage the participation of bigger NGOs. On the other hand, it is also true that at this point in time many donors are increasing their contribution to Ayacucho. This contribution takes a number of forms: 'reconstruction', support to programmes with displaced people, rural and urban micro-credit. And it comes from various sources: the different CFs, AID, PACT and *Consejería en Proyectos para Refugiados* among others, in addition to the government programmes, especially FONCODES and Programa de Apoyo al Retorno (PAR) (Programme of Support to Returnees). 'An expansion of the market' is taking place, as the director of one historic NGO put it.

To be able to have access to a share of this expanding market, however, the NGOs have to shape their projects and themselves in line with the donors' policies. They have to embark on a process of restructuring, a process which seems to be more painful in the case of the

older NGOs as, for instance, the restructuring of the NGO awareness of the market expansion has extended over the past three years. One NGO had to take part in a programme with displaced populations (something entirely alien to its previous practices) simply because it could not get funding for other activities. Another NGO is orientating itself towards projects with urban micro-entrepreneurs, although all its previous experience has been in the rural sector.

This restructuring process is causing significant and fundamental changes. NGOs are being pushed towards changing their style of management, making themselves more business-like and less and less based on political ideology. NGO directors used to be professional, preferably from the social sciences, politically committed and concerned with cultural identity, regional development and social justice. In contrast, the ideal NGO director nowadays should be first and foremost a good manager primarily concerned with the projects' quantitative impact and able to move easily amongst strategic and operational plans, logical frames, net present values and analytical budgets.

AID-related organisations such as CARE and PACT and by CFs play the leading roles in this refurbishment of cooperation organisations. CARE and PACT are influential in various ways. First, they have installed a purely technical style of work, emphasising efficiency and pragmatism and aiming at reaching large numbers of beneficiaries. Second, they have the capacity to fund NGOs implementing projects in accordance with the objectives, goals and methodologies of their own programmes. Last, through arrangements such as PACT's cooperation agreement with CIDRA, they promote the consolidation of a layer of NGO managers, trained in the same techniques and concepts. The CFs, on the other hand, support those projects that meet their rather rigid criteria in terms of activities, regions and tools. Therefore they have played an important role in the spread of credit projects (especially the PCGCF), following their policy of favouring loans instead of donations or revolving funds. The reporting requirements of these institutions also place a heavy burden on NGOs' administration staff.

### **4.3. The Case of Huancayo**

Huancayo is a very dynamic commercial city, unlike Ayacucho. Placed strategically on the widest and most fertile Andean valley at about the same latitude as Lima and connected to it by a main paved road, Huancayo is an important supplier of foodstuffs to the capital. It is also conveniently close to the main mining sites, an important consumer market. Its location beside roads leading to the Amazonian forests reinforces its role as intermediary in the commercial flows of tropical goods (coffee, fruit, timber) and in the supply of tools and food to the people settled in those lands. Finally, Huancayo is also the door to the southern Andean provinces, connected to it by an unpaved road that leads to the frontier with Bolivia.

In the Peruvian context, Huancayo is a medium-sized city. Its urban population consists of merchants, micro-entrepreneurs (both traders and manufacturers), workers and students (Huancayo has a public university offering a variety of professional studies). The surrounding peasantry has strong links with the market and mainly because of these links traditional social institutions such as peasant communities seem to have lost strength when compared to the southern Andean regions.

Before the outbreak and expansion of SP's guerrilla warfare, in Huancayo there were several NGOs mostly engaged in rural development projects funding by some NNGOs. As in the case of Ayacucho, SP's influence grew in the university, spreading among students and faculty members. Between 1985 and 1990 the countryside around Huancayo became the scene of operations of important SP armed columns moving between the highlands and the lower Amazonian slopes of the Andes. These columns attacked mines and rural cooperatives and temporarily seized villages and small towns. At the political level, they ruthlessly attempted to capture control of the powerful mining trade unions and federations; their objective was to eliminate all forms of state authority in the countryside and to control peasant communities and small villages. While this happened, the armed forces seemed to be overtaken by the growth of SP in the rural areas and engaged in violent repression of SP cadres in the cities, especially in the university (in which SP was also dedicated to a brutal struggle with another armed group, MRTA). With the growth of violence both in the city and the countryside, NGOs found it increasingly difficult to continue operating. Huancayo was with Lima and Puno one of the places in which the SP murdered a member of a NGO. But there was also a danger of being seen as a 'subversive' by the armed forces, and even worse by the paramilitary groups that did most of the killing of suspected SP activists and supporters. NGO activity in Huancayo practically came to a halt; by 1992 only a few continued limited operations (carried out under threats from the SP).

This situation started to change after 1993, with the fall of the leadership of SP and the defeat and disintegration of its guerrillas. Since then, some NGOs have 'reopened' or been reorganised, while a number of small new NGOs have been created. Several founders of these new NGOs include former workers of 'old' NGOs. The process by which workers of NGOs leave their employment and found their own institution adopts various forms. Most common is the dissatisfaction with the way in which the NGO is being run. There is usually a team in charge of a given project in an NGO, conducting its affairs with varying degrees of freedom but usually they have very little say on the way resources are used; the head of this team disagrees with the 'management' and decides to leave and set up a small NGO of his/her own. Normally the leavers design a project similar to the one they have just left and submit it for funding to some agency. This cellular process of NGO reproduction is made possible because there exists a real possibility of obtaining funding for yet another NGO: CFs are open to new projects in the areas where they have decided to work and FONCODES is actively funding projects in social infrastructure, and projects with displaced population have a high probability of getting funds from agencies concentrating resources on this subject. As some members of NGOs say, the 'market' for projects has grown.

In other cases, new NGOs are formed by ex-staff of older NGOs after their projects were completed. The older NGO may decide not to continue working on the same subject and the team may be left out of a job. Professionals made redundant by the reduction in the numbers of civil servants may join these new NGOs.

Whatever the process may be, there has been an increase in the number of NGOs, but they are very small in terms of the number of people working in them and are institutionally rather weak. Depending on the expertise of the people starting the NGO, the weakness may also extend to actual technical and administrative skills. Such weaknesses may not be detected by the funding agencies at the moment of evaluating the

applications but usually show up in the course of project implementation. This has been very much the case with small NGOs funded by CFs, mostly for two reasons: administrative shortcomings for the management of relatively large sums of money, and a lack of technical capability for implementing credit schemes. In the case of Huancayo, the failures encountered by the PCGCF in administration of credit schemes forced them to have a Lima-based NGO specialising in credit to administer the credit funds on behalf of all the NGOs working with the Fund.

The differences in size determine the type of relationship with development agencies. SEPAR, the biggest NGO in Huancayo, has funds from two European NGOs to finance institutional functioning and part of the project work, administers a donation for a credit scheme from the IDB's Small Projects Programme and has a contract with the PCGCF supporting a rural development programme with a rural credit component. IDEA Peru, founded by a former SEPAR worker, is very small and has only one project which is funded by the PCGCF. On the one hand, SEPAR is moving along an institutionally defined path towards the incorporation of a credit scheme into the programmes for rural development and can therefore accommodate the relationship with the PCGCF into this design and benefit from it. On the other hand, working with the PCGCF is practically a matter of life or death for IDEA Peru; the small NGO has very limited bargaining power and has to accept the agreement with the Fund as a whole even if (as is the case) they would rather not be doing credit. The obligation to implement credit schemes that they do not want to do, and lacking the technical skill for it, is surely at the root of many a failure in this sort of project.

## **5. Relationships**

How and why has the phenomenon of direct funding affected the relationships between the different actors involved in development work in Peru? The changing and contrasting dynamics of these relationships in turn affect the efficiency, size and philosophy of local NGOs, all of which are ultimately manifested in their impact on the beneficiaries. Some of these changing dynamics have already been illustrated above, but this section discusses the impact of direct funding on these important relationships. As far as possible the nature of the changes has been identified rather than making major value based statements as to whether these have been beneficial or injurious.

### **5.1. NGOs and Funders (CFs, OAs, NNGOs)**

The relationship between NGOs and their funders was discussed in the previous section with reference to specific organisations. From the interview findings with those actors a number of general points can be drawn in terms of the changes in their relationships, and the impact that this has had on both sides. As noted above, quantitative changes in funding patterns leads to qualitative changes in relations between those involved.

The relationships between the Peruvian NGOs and their funders, both old and new, are central to their work. But are the NGOs conscious of, or affected by, the developments that have been occurring? A DESCO study claimed that total funding to NGOs has not dropped because contractual type funding via the government, WB loans and other sources of funding are replacing grants from the traditional NNGO donors. Are Peruvian NGOs aware of the long-term implications of the changes? Do they distinguish between their sources of funding: short-term funds for specific projects which are becoming more and more available provided the paperwork can be completed, and longer-term grants for more institutional development which require less paperwork but are increasingly uncommon?

Some NGOs are aware of the changes and adapt accordingly. The ITDG director noted the decline of the more progressive local agencies due to funding problems, even those with well-established field programmes such as CIPCA Piura, a Jesuit run rural development agency, which has had to reduce its staff by a third as the traditional donors withdraw. IDESI and COPEME, who have been working with organisations with experience in loan management, note the change: while funds were in abundance they operated with a project-expenditure focus, but now they apply an investment focus.

Rather than the recipients, it is the funders themselves that are most affected by the new trends evolving in direct funding. As stated earlier the interaction between NNGOs and the Peruvian NGOs has declined, not only in terms of funding, but also in terms of solidarity, and the NNGOs are struggling to cope. In the early days this relationship was crucial for the Peruvian NGOs as it was initially their main source of funds and expertise. As the Peruvian NGOs developed expertise and experience, and as other sources of funds became more readily available, however, they have had less need for the support for the NNGOs, and in a way, the relationship has been reversed with the NNGOs being almost dependent now on their Southern partners to validate their

existence. As John Schlanger, formerly of NOVIB, said: 'The international solidarity that formed the basis of international cooperation among NGOs for the last 25 years is being replaced by the ideology of "success" '.

As the role of the NNGOs becomes increasingly undefined, they are being forced to change their original ideals:

Upheaval for NNGOs has meant that they have gone back to the concept of financial management that involves allocating resources for specific activities. Discussion no longer centres on objectives, as project indicators and operational monitoring. This situation is a result of a succession of developments. Surging neo-liberalism and cutbacks has made public opinion more critical of the effectiveness of cooperation. This leads to streamlining and the imposition of controls by official donors. This, in turn, puts pressure on NNGOs who then apply this zeal for auditing onto their Peruvian partners, which leads to increased control and pragmatism.<sup>32</sup>

Both SCF and OXFAM UKI, for example, have rejected the idea of closing down offices as a way of at least maintaining some aspects of their programme work. There is a whole set of issues here about their strategy of maintaining presence rather than focusing resources according to agreed priorities. With official agencies becoming more like NNGOs in terms of their funding arrangements, NNGOs such as OXFAM UKI and ITDG are being forced to open or reorientate their field offices to access the new sources of funding. The role of NNGOs and their potentially beneficial relationship with their Peruvian counterparts should not be written off yet, however, as several 'historic' NGOs still maintain close relationships with certain European NNGOs.

In contrast, the development of direct funding has sparked off many new relationships between the official agencies and the Peruvian NGOs that they fund. As stated previously, many new Peruvian NGOs have been created to receive the direct funding: FICONG is clearly the creation of official funding which started with training programmes for NGOs in areas of capacity-building evaluation and strategic planning, though unusually they try to match local resources with half their own funds. Since the introduction of the FONCODES, there has been a doubling in the number of NGOs involved and the approval of 18,000 projects. Government officials and civil servants have founded NGOs as a means of replacing the funding lost when official agencies went through with their policy of bypassing the state and working directly with NGOs. The relationship between these new NGOs and their funders is difficult to define as there is a fine line here between it being a partnership to achieve a common goal or actually more of a contractual type arrangement. And the relationship is by no means problem-free; there has been NGO dissatisfaction about the increased expectations and accountability required from their new partners as well as a sense of loss of support.

Although the official agencies involved in direct funding do not necessarily have a close relationship with the Peruvian government, they are still very much indirectly involved in the political situation both nationally and in terms of international relations through the organisations and activities which they fund. This can be beneficial to Peruvian NGOs and can even make their situation easier. Multilateral organisations such as the UN, WB, IDB and EU have offered to carry out environmental conservation and anti-drugs programmes on two conditions: that an autonomous multi-department organisation

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<sup>32</sup> Valderrama, *New Directions*, p. 86.

be set up and the government defines clear development policies. But they also have to be careful; the EUF has rejected large applications from highly politicised pro-SP NGOs. There is also a possibility that these official agencies are using the Peruvian NGOs as pawns in their politics; for example, USAID has been criticised as using development assistance as a means of advancing US foreign policy and there are doubts about the real commitment of the USA to development assistance. Direct funding therefore provides an instrument for donors whereby SNGOs can influence their own governments, and in doing so may increase the donors' political influence.

In the Peruvian context there are still certain key questions which require consideration:

1. What is the relationship between the funders and the NNGOs? If there is there one, is it competitive, supportive or reliant? Peruvian NGOs are concerned about what the future might bring and how it might be moulded by changes occurring between their donors, these are changes over which they have little, if any, influence.
2. Has direct funding been going on long enough for its consequences to be seen and for Peruvian NGOs to be aware that it is more than just a passing phase? NGOs have shown some concern throughout this study, fearing that the new official funding is destined to be very short term and tied to the economic crisis and guerrilla war. If such funding were to come to an end what, if anything, would replace it? This is very significant given the withdrawal of many NNGO donors from Latin America. Elsewhere in the continent there is some evidence of both government and corporate funding, but at the present time few in Peru can believe in so optimistic a notion as to permit high levels of corporate or state resources being available to NGOs. The one example so far is not encouraging, as it is FONCODES, based on a very strong philosophy of sub-contracting for short-term services.
3. What is also not clear is what the relationships are likely to be between NGOs and community groups especially in those areas which have suffered from the guerrilla war. Will these reformulate into a patron-client relationship, will it be devoid of the strong vision previously dominant in Peruvian rural development, or will NGOs be seen as bodies contributing to the short-term readjustment for returnees but with a little longer-term role?
4. This last question leads to the final point related to the future of civil society in Peru and whether there is a role to be played by NGOs. For a society racked by violence, where community institutions were often the targets of this violence from the SP, can NGOs contribute to re-establishing civil society organisations? It is interesting that USAID was one of the few official donors to have entered into this arena. The description of some of their work under their democracy fund has a certain ideological tilt towards small enterprise and regardless of its problems it does provide a serious attempt by an official agency to support civil society. Taken from a different perspective than USAID, has been some Dutch NGO donors who have also tried to maintain a vision of civil society. This group has demonstrated a long-term commitment to poverty reduction through tackling its causes, and institution-building and long-term research and advocacy. If such groups were to stop finally their own funding programmes Peruvian NGOs would be much poorer intellectually, culturally and organisationally for it.

## 5.2. NGOs and the Peruvian Government

Government policies are very influential in the development of any NGO relationship and to a certain extent limit or define the NGOs' capacities. The changes that have occurred in terms of the relationship between NGOs and the government are due to the recent shift in funding mechanisms in which the direct role of the government in receiving and distributing funds has decreased. The changes are also due to the political situation in Peru in which until recently NGOs had been regarded by the government as oppositional and suspicious of terrorist activities. So there are two primary factors involved here, and it is not easy to distinguish how far they are interlinked.

The government was traditionally involved in bilateral funding, and as such was the principal partner in Peru for the official agencies. Northern governments and other bilateral organisations directed their funding towards the government, as did some NNGOs such as the SCF whose policy included strengthening Southern governments. But failure of the state to improve infrastructure and to stimulate economic growth as well as the criticism against government ministries for being overly bureaucratic, contrasted with the efficiency and achievements of NGOs in rural growth. This led to the official agencies exploring the possibility of funding Peruvian NGOs directly.

In the direct funding mechanism not only is the 'middleman' NNGO cut out, but as the Northern government and bilateral organisations channel more of their funds directly to local NGOs the Peruvian government is bypassed. Many NGOs built their programmes around lobbying the state for resources on behalf of the poor, but as the state cuts back this strategy looks less viable. It also decreases the interaction between the government and NGOs. The growth of funds to Peruvian NGOs has had an immediate and obvious impact. To some extent the NGOs have replaced the government as the principle partner which has led to a varying degree of antagonism between the government and the NGOs due to the misconception that more funds for NGOs meant fewer funds for them. So local NGOs end up competing with their government for access to these new funds, and also directly or indirectly with their NNGO counterparts. The government officials are of the opinion that the increased direct funding to the local NGOs is taking place at the expense of bilateral or inter-governmental cooperation.

This has a number of political implications: strengthening local NGOs independence relative to the government, resentment and political instability, bad international relationships, and a lack of cooperation between the Peruvian government and other groups. Alternatively the funding for NGOs could be seen as part of a package of interventions designed to support the government in the face of their continuing struggle against terrorism, the cocaine trade, and the economy. In this model NGOs are seen to strengthen the state's ability to command the respect and loyalty of the people, and they are potentially directly supportive of the government. At the end of the day they have a greater interest in supporting a democratic civil society than those organisations who confront the government such as the drug dealers and guerrillas.

The relationship between NGOs and the government in Peru has never been an easy one. Although Peru was known for its integrated cooperation system in the 1970s, this changed significantly leading up to, and during, the Garcia government. There was an implicit criticism and distrust of NGOs by the government as being too politically linked. This

comes from the recent political and violent past where NGOs were regarded as terrorists, despite the fact that several legitimate NGOs suffered loss of life at the hands of the terrorists and were clearly targeted by them. NGOs and their Northern counterparts, for example CRS, are aware that the previous politicisation of the NGOs has made for difficult relations with the government. The solution put forward by UNDP and CRS is to prove that NGO hands are clean of any terrorist activity by improving its self-regulatory system and accountability. This in itself is a novel concept in a country with very little tradition of auditing, and the emphasis is now on operational capacity and technical knowledge rather than organisational and institutional development. Among the NGOs there is no real shared collective view, and they are in competition both financially and politically, and hence their own self-interest comes first.

Ironically this emphasis on financial accountability and efficiency could further aggravate relationships between the government and the NGOs. Although the increased transparency of their work might clear them of any accusations of terrorist activity by the government, it will also make them a more attractive target for direct funding, and therefore result in their growth and increasing the potentially competitive relationship between the NGOs and the government. Where NGOs are perceived to be growing at the expense of the state this can lead to a backlash from the state against NGOs with concomitant negative consequences such as attempts to control them by the government.

The government still has a political distrust of NGOs which can impede their progress. For example, the government would not sign the GEF (Global Environmental Facility) agreement which would enable local NGOs to get access to GEF funding, and UNDP had to lobby the government to persuade them to sign the agreement. Another example of government ambivalence towards NGOs, which inhibits their progress, is their lack of support in negotiating a counterpart fund called PREDES (Proyecto de Emergencia y Desarrollo) with Spanish, Dutch, German and Swiss funding linked to the government's FONCODES programme. This was organised by UNDP to administer multilateral bank money for schemes such as privatisation which could include NGOs, but the Peruvian government consistently excludes NGOs from the programme leaving UNDP in a difficult position between the government and the official donors.

A further example is the UN system and the International Financial Institutions (IFI) work on the basis of grant funding. NGOs are sought out as collaborators bringing in their own funds and expertise as co-implementors of aid projects in some form of cooperation with local and national government agencies for which government approval is often required. The IFIs are constrained because the government must be the legal recipient and guarantor of repayment, unless the funds are specific grants from donors common to structural adjustment compensation funds. But there are a growing number of examples where NGOs are designated recipients of IFI loans and other developments, for example the WB publishes a guide for NGOs wishing to participate in their schemes. And in the case of FONCODES the WB put pressure on the government for part of the resources to be channelled through the Peruvian NGOs which the government was reluctant to do.

The target of bilateral funds is to fulfil the aims of the country framework agreement made by the government and there are often foreign policy or trade considerations to be taken into account. The decision to provide such funding to local NGOs is generally a joint one

by local offices and relevant ministries at home. An increasing number of agencies are offering a mixed range of funds to governments, the private sector and NGOs as a way of achieving a single goal, and this is one way in which the strained relationships between the government and the NGOs could be improved. For example CRS has gone this route with larger projects or groups of projects using different sources of funding including monetised food, CFS, multilateral banks on one side and groups of client NGOs on the other.

The political distrust by the Government of the NGO community is reciprocated to a certain extent. The government has a reputation as being corrupt, and increased accountability and transparency in the distribution and use of resources is equally important for the government in order to get respect again from the international donor community. This is also important for preventing use of cooperation funds for political or illicit ends. Information on the use of cooperation funds is kept confidential and the public are denied access to contracts and even basic SECTI statistics are not open to public viewing, although progress has been made and there are new laws which will guarantee public access to this information.

In terms of the political situation in Peru, the change in government has affected the state's relationship both with local NGOs and with their funders. Before the Fujimori government, the level of corruption was very high, confidence in their aims and abilities by the funders was very low, and their level of debt resulted in many donors freezing their funding. But since the election of the new government, due to the economic reforms and the increasing credibility of the government, Northern official donors such as CIDA are now considering funding them again, specifically turning their attention towards the challenges in the future related to basic health and education services. The increase in funding from sources such as these could result in increased competition between the government and local NGOs.

There is a feeling among the local NGOs, however, that although the government has achieved economic stability and there is some evidence of economic growth, it does not have any vision of how and where to develop the country and there is a vacuum in the government regarding any developmental policy. DESCO, a local NGO, is actually looking at certain aspects of changing relationships including those between NGOs and the state, including a social policy review which surveys 90 NGOs in Cajamarca, Lima, Cuzco and Arequipa. They are also aware that they need to understand what can be attributed to the changes in policies of the funders, and what is attributable to national trends such as the political situation.

### **5.3. Inter-NGO Relationships**

There have been conflicting changes in the way in which the NGOs interact with each other both at a local and national level, some of which are due to global changes in development practice and thinking, and others that are more directly a result of the new sources of funding. At one level the loss of a shared development vision but increases in efficiency, coupled with the changes in funding, often puts them in direct competition with each other.

On the other hand there has been an increase in networking and umbrella groups, mostly caused by the demands of the funders or the government and not necessarily due to a

conscious effort on the part of the NGOs themselves to share resources. Although the formation of consortias are not new,<sup>33</sup> those that have been formed in response to new sources of funding provide each other with a different type of support, that is, technical and managerial support as well as shared proposal writing to get funds, rather than common purpose and mutual support help networks. It can also be argued that the need to create consortia has more to do with the convenience of official donors who wish to reduce the number of partners they deal with rather than any real desire on the part of the members.

For example, one of the ways that the CFs tried to solve the problem of small NGOs being unable to handle the large sums was to create consortias hoping this would help in terms of project planning and implementation. Possibly as they are falsely created groups rather than sharing a common goal these consortias have not been successful in the way that was hoped, however, although their merits in terms of coordination, spread of information and promotion of discussion has been recognised. Though whether they would continue to cooperate or survive without pressure from the CFs is uncertain.

#### **5.4. NGOs and Civil Society**

The amount being directed from NNGOs to SNGOs has increased globally from US\$900 million in 1970 to US\$5.2 billion in 1991, but as has been discussed above this trend is being modified as the amount of funds actually available to the NNGOs is declining and they are forced to redefine their work methods. Now SNGOs are able to obtain other types of governmental or multilateral resources directly, and cooperation sources are tending to channel less funds to governments and increasing the flow of aid to civil society organisations such as SNGOs and business guilds.

Increasing the role played by civil society organisations results in reducing the role played by the state in public service provision, and in determining the distribution of the funds and the conditionalities imposed on the funds. The state had also been suspected of misusing public funds and accusations of corruption in connection with international cooperation have been rife in the media, such as the so-called 'electric train project' in which the ex-President Garcia and a former Italian president were implicated. There are also numerous examples of manipulation of foreign aid for personal political gain - Fujimori has toured the country making gifts of machinery bought with public funds. Therefore official agencies made a conscious move to bypass the government in the distribution of funds, aiming to reinforce those institutions of civil society which provide support where the government has failed. Also, the private development organisations have managed to operate at a lower cost and are more effective in reaching beneficiaries than the state.

There are two main questions that challenge the official agencies' intentions, however. The first is that by offering important services, SNGOs take pressure off local governments to provide for society at large thereby strengthening civil society which can

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<sup>33</sup> Peru has a long history of collaboration of NGOs at a wider level through their membership of the Asociacion Nacional de Centros (National Association of NGOs) formed more than 15 years ago.

result in weakening the state further - a weak state is unlikely to promote and protect civil society. So in effect support for NGOs can actually undermine or weaken civil society if the local organisations and decision-making structures are bypassed, and if NGOs actually compete with other civil society actors for political and social space as well as resources. Civil society organisations feel that they are being overshadowed by large NGOs although generally NGOs have been reluctant to take a political role in relation to the state (and are often funded from external sources and lack local legitimacy and accountability).

The assumption that NGOs are synonymous with civil society and that supporting the former leads to strengthening the latter needs to be questioned. There are many other organisations apart from NGOs that make up Peruvian civil society who possibly could do more towards strengthening it. Equally Martin Scurrah argues that civil society and the state are mutually reinforcing and that this relationship needs to be understood, especially if NGOs are funded instead of the state.<sup>34</sup> The necessity for mutual support suggests that donor programmes to strengthen civil society should not be done without regard for government as channelling donor funding to NGOs can undermine government structures. Scurrah argues that the fact that there is a large NGO sector in Peru does not in itself mean that civil society is strong. The strength of civil society depends on how the NGOs engage with society and one cannot generalise as it depends on the particular relations of each NGO concerned. Alternatively it could be argued that as significant resources are directed into micro-credit by the new official agencies and lobbying local authorities for basic services is still done by barrio committees, where do the NGOs fit in? Or has their role been supplanted by the President and his personalised style, and schemes of school building, roads, electricity and roofing grants?

The second challenge to the official agencies' intentions is that given their longer-term commitment and wider views possibly NNGOs are actually able to contribute more to civil society than the new generation of sub-contractors who are providing short-term quick impact services or projects. There is concern that official funding has moved the NGO sector from a position whereby underlying NGO work (both NNGOs and Peruvian NGOs) was the belief that they were about enabling or empowering poor communities to seek their own solutions to structural poverty, possibly by lobbying or claiming services from the state. Official funding has encouraged if not created a new emphasis in NGOs on direct service delivery and an emphasis on directly alleviating poverty rather than tackling the structural causes. This move by NGOs is not totally due to official funding but it has undoubtedly contributed to the changes in approach and philosophy.

Civil society took a blow due to the guerrilla war, but Peru's future probably needs both the transparent democratic government as well as a plurality of different forms of organisation, from church to chambers of commerce to NGOs, not just the immediate needs of rehabilitation.

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<sup>34</sup> M. Scurrah (1996) 'NGOs, Civil Society and Democracy in Peru', in A. Clayton (ed.), NGOs, Civil Society and the State, ch.11.

## 6. Towards a Conclusion

Peruvian NGOs have a long history and strength in numbers and diversity. They have always been characterised by the quality of their intellectual output and their innovative ideas which made them a world leader in the 1970s. The sector suffered many severe shocks through the economic collapse of the country and the guerrilla war when it became not only incapable of stopping the violence but also a target of it. In the 1990s some of these external pressures lessened, and this was accompanied by new funding for rehabilitation from official donors. Significant funds came from the official agencies to the Peruvian NGO sector over the past few years. But these funds also came with many restrictions on them (geographic spread, procedures required, type of programme, etc.). Some 'historic' NGOs have indeed adapted to these, but they have also promoted a new generation of NGOs operating as sub-contractors to fulfill the plans and objectives of these donors.

The net impact of these funding changes is that the NGO sector is still alive and active, but it has changed. It is less characterised by its earlier strong vision of development and on average more dominated by a supplier-led view of development tied to donor perspectives rather than an indigenous Peruvian approach.

In terms of strengthening local civil society, which had taken an incredible shock due to economic and conflict based pressures, it is probably still too early to draw a conclusion. What does seem to be the case is that with some notable exceptions (USAID on one side of the ideological divide and the Dutch NGOs on the other) most of the new donor money has not directly done a great deal to reinforce civil society. The funding has been for traditional sectors such as small-scale infrastructure, credit and rural production. The reason that we feel that it might be premature to come to any final conclusion is that there may well be strong indirect contributions to civil society from projects which may be shown to have contributed to a return to post-conflict normality (rebuilding schools may well bring communities back together for example). Second, it may well be the case that as the war subsides and the economy stabilises much of the official funding may depart leaving a large number of the new and some of the old NGOs bereft of funds, and most will have to close down. How much recent events and trends have had an impact on civil society will be shown by what remains after this occurs.

The pattern in Peru is very different from that observed in other countries included in this research programme. For example the official funding has created a few big NGOs such as Manuela Ramos, but for the most part it has encouraged the spawning of hundreds of very small agencies. This is in part due to donor desire to get funds into relatively isolated communities in the war and drug zones rather than looking towards large institutions which could scale-up a single method or take over the provision of a basic service. In this manner Peru is almost the complete opposite from Bangladesh, where a tiny number of NGOs have commandeered the majority of official funds entering the country. We must also remember that the decline of NNGO funds in Latin America is more pronounced than in the other countries in our study. Thus the official agency funds filled a gap left by these donors; but by following their own criteria they did not

merely provide an alternative to earlier NNGO funds for they came with different agendas and ways of working.

Finally it must be stressed that because Peru has been through such powerful changes over the past fifteen years it is not argued here that all of the changes in the NGO sector can be placed at the door of the funding changes driven by the official agencies. As the local NGO directors themselves agreed, many of these changes were the result of the underlying changes in Peruvian society, the pressures of the guerrilla war and the economic collapse. What has been tried in this study is to identify which of the changes can be said to have been the result of the funding changes entirely and which were independent of these, although possibly in some cases it can be argued that the funding changes have contributed to them. The move away from empowerment or social transformation strategies suffered during the crisis, both because communities needed immediate assistance and because the guerrilla war discredited many 'socialist' approaches, and the popular movement suffered (collapse of peasant unions, violence against 'barrio' leaders). The funding changes reinforced this move, however, by making it easier to get funds for soup kitchens ('comedores populares') and later credit, than for community organisations.

It will now be of great interest to see how the sector re-adapts to the relative peace and the economic improvements in the country and the undoubted changes which will come to the NGO sector, including its relations with other civil society organisations, the state, and external donors.

## APPENDIX

### Methodology

This report is compiled from a number of other smaller reports.

In September 1996 Teobaldo Pinzas did an exploration of direct funding to NGOs carrying out development projects in Peru based on secondary published materials (yearly reports) and unpublished evaluation reports as well as primary material based on interviews with leading members of NGOs in Lima, Ayacucho and Huancayo; representatives of (Northern) Government and private cooperation organisations; and officers of Peruvian governmental agencies.

Interviewees in Lima included Mariano Valderrama, CEPES; Abelardo Sanchez Leon, DESCO; Elizabeth Dasso, World Bank, Lima; Meliton Carbajal, Co-director of EUF; Cesar Villanueva, Project Manager, PCGCF; Jose Guerra, Peru Swiss CF; Fernando Villaran, IDB; Beatriz Cobian, USAID; Carlos Salazar, Grupo de Analisis para el Desarrollo; Baltazar Caravedo, SASE; Sonia Galdos, Centro Manuala Ramos; and Jesus Aguilar, Centro Alternativa.

Interviewees in Ayacucho included Carlos Loayza, Instituto de Estudios Regionales Jose Maria Arguedas; Carlos Alviar, CEDAP; Aristion Tinoco, CEEA INTI (Centro de Estudios y Asesoría Agrícola INTI); Jeffrey Gamarra, IPAZ; Raul Alcazar, CIDRA; Hugo Huamani, CIPPD; Andres Solari and Victor Altamirano, Vecinos Peru; and Amada Gutierrez, Cooperation Agreement PACT/CIDRA.

Interviewees in Huancayo included Norma Canales, Grupo Yanapai; Raul Palomino, IRINEA; Percy Flores, SEPAR; Nivardo Santillan, CEDEPAS; Jorge Caamborda, PRODER; Walberto Lopez, IPADER; Francisco Lazo and Ruben Gutarra, IDEA - PERU; and Victor Santillan, CADES.

Brian Pratt also wrote a brief review in November 1996 on the effects of direct funding based on a number of interviews with Joannes Verkooijen, EU Co-director; Joseph Lombardi, head of USAID Peru; Ken Brown, David Lewis TCO (Technical Cooperation Officer), ODA/British Council; Andre Portvin, CIDA; Alberto Giesecke, Programme Officer, UNDP Peru; Richard Harthill, Oxfam UKI; Dick Smith, Oxfam America; Andrew Maskrey, Country Director, ITDG, UK; Jared Hoffman, Catholic Relief Services; Martin Beaumont, DESCO; Jaime Vella, Escuela Para el Desarrollo; Mario Zolezzi, FICONG; and Manuel Tristan, CEDC Programme Officer and Pilar Dughi, Consultant, UNICEF.

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