

# Grassroots Development

Journal of the Inter-American Foundation

A Grassroots View of  
Development Assistance



VOLUME 23

NUMBER 1

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The Inter-American Foundation (IAF), an independent agency of the United States government, was created in 1969 as an experimental foreign assistance program. The IAF works in Latin America and the Caribbean to promote equitable, responsive and participatory self-help development by awarding grants directly to local organizations. It also enters into partnerships with public and private sector entities to mobilize local, national and international resources for grassroots development. The IAF's operating budget consists of congressional appropriations and funds derived through the Social Progress Trust Fund.

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The purpose of this journal is to share grassroots development experiences with a variety of readers. The editor encourages submissions on relevant topics including, but not limited to, the following:

- how the poor in Latin America and the Caribbean organize and work to improve their lives;
- issues and trends in the development community;
- how institutions cooperate to further the development of the region.

Please direct query letters to Paula Durbin at the above address or e-mail [pdurbin@iaf.gov](mailto:pdurbin@iaf.gov).

*Cover photo:* Patrick Breslin. This young Honduran returning from a family fishing trip is a beneficiary of IAF grantee el Comité para la Defensa y Desarrollo de la Flora y Fauna del Golfo de Fonseca [committee to defend and develop the flora and fauna of the Gulf of Fonseca]. For more about this project, see page 5.

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This issue of *Grassroots Development* marks a double milestone for the Inter-American Foundation. First, we celebrate the journal's return to circulation after a three-year hiatus. *Grassroots Development* is now slated to appear once a year, and our next issue is already scheduled. In the interim, we've tried to keep our readers informed through our annual reports, news releases and, since January, a quarterly newsletter. With this issue of the journal, we are reviving the essays, articles and photos that have for years been the public face of the IAF's work. It is one of our longest issues in more than two decades, and perhaps the one with the most visual impact.

Additionally, as the journal was in preparation, the IAF's grant program completed its third decade since its very first award to a small fishing cooperative in Peru. To connect with our 30th anniversary of funding self-help initiatives in Latin America and the Caribbean, we have included in our comeback issue the perspectives of several individuals who have known the IAF for a very long time. For thematic navigability, these articles are grouped under the section heading "Looking Back, Looking Ahead," a reference to the IAF's 30-year commitment to grassroots development and the to implications for the future. The section begins with Ramón Daubon's lively assessment of how foreign assistance has played out over the past half century and where the IAF fits in this panorama. The next piece, on the sudden worldwide explosion of the Third Sector, whose institutions are the IAF's grantees, is taken from Lester Salamon's fact-filled keynote address at "Building Democracy from the Grassroots," a forum co-sponsored on July 16, 2001, by the IAF and the Organization of American States. This is followed by Audra Jones' interview with George C. Lodge whose vision for funding those Third Sector "engines of change" was crucial to the creation of the IAF in 1969.

Edgar Dario González' memoir of his organization's IAF-funded educational efforts in the early

1980s provides the transition to the project-focused articles in the section titled "Solutions and Strategies." The topics under discussion are among the most current in the development community. Ann Hastings' piece on remittances launches a forum. Chris Krueger and Rubén Calle Mejía zero in on grantee activism in the Andes and its far-reaching consequences. Beryl Levinger summarizes her research on partnership, based on a study of IAF-supported programs, while Judith Morrison chronicles a win-win arrangement forged by group of recyclers with the city of Belo Horizonte, Brazil. And *Grassroots Development* breaks new ground with its first ever photo essay, Patrick Breslin's eloquent montage, inspired by the hard-won success of another recyclers' network, this one in Bogotá, Colombia, with narration from the beneficiaries.

To bring our readers the variety of articles and illustrations contained here, we have off-loaded a lot of more time-sensitive news to the publications mentioned earlier. Our Web site at [www.iaf.gov](http://www.iaf.gov), which underwent a thorough renovation in 2001, has the full inventory of these in html or graphic format. We would appreciate your feedback on this division of information functions and any other aspect of our communication efforts.

Finally, the journal welcomes the fresh perspectives and enthusiasm of book reviewers Bob Maguire, Michael Foley, Miriam Brandão and Roberto García. Enthusiasm is, in fact, the thread running through this entire issue. It has been a defining characteristic of the Inter-American Foundation's work for more than three decades—and has allowed *Grassroots Development* to count on the IAF's staff and collaborators for a steady flow of thoughtful, relevant articles. That's important because we will be back in 2003. We promise.

Paula Durbin  
Editor  
*Grassroots Development*

# A Grassroots View of Development Assistance

By Ramón Daubón

*“Among the laws that rule human societies there is one which seems to be more precise and clear than all the others. If men are to remain civilized or to become so, the art of associating together must grow and improve in the same ratio in which equality of conditions is increased.”*

Alexis de Tocqueville, *Democracy in America*



PHOTO: EDGAR RICARDO VON BUETTNER

*A small grant in 1973 to Fundação de Desenvolvimento Integrado de São Fernando (FUNDIFRAN) in the Brazilian Northeast helped a young regional development agency prepare a long-range action plan.*

## The art of associating

In the 1830s French political philosopher Alexis de Tocqueville was concerned about where his country was headed. As a template for comparison he chose to study the still remote, but nevertheless intense, American political experiment that had preceded the French Revolution. Tocqueville was convinced that the success of both democratic movements would hinge on the population's command of what he termed the "art of associating." Recent evidence on economic development bears Tocqueville out. It suggests that a community's art of associating, its capacity to act together, may be the single most important factor in its economic advancement. Development, it now appears, cannot be sustained in the absence of this capacity. And this capacity cannot simply be built; it has to grow organically in the political culture of a country.

## In search of a new paradigm

International development assistance is in search of a new paradigm. If we rigorously define development as a society's capacity to sustain its own economic progress, then more than half a century of development assistance has failed. With notable exceptions, recipient countries are no more capable now of sustaining their own development than they were two generations ago. And where successes have occurred, few can be irrefutably traced to the intervention of international donors.



PHOTO: WILHELM KENNING

*El Ceibo cooperative federation, pictured above in 1981, is a South American pioneer in the cultivation and processing of organic cocoa beans. The cooperative used conservationist agricultural techniques and consensual self-management as well as extensive service programs to become one of Bolivia's most important chocolate manufacturers.*

Until now development assistance operated under a questionable premise. The condition of underdevelopment was defined as essentially economic and hence mainly receptive to economic remedies. Bilateral, multilateral and private charitable organizations all assumed the development process could be jump-started by well-timed economic interventions. Implicit in the assumption was that the subject communities or nations were trapped in a low-level equilibrium situation and would respond to a jolt from outside creating dynamic disequilibria. The challenge to donor organizations lay in designing the right intervention and choosing the right moment to intervene.

For development purposes human factors were addressed in economic terms. Education served the development of human capital, managerial skills and, ultimately, productivity. Concerns about health or general welfare were either primarily humanitarian or related to the effectiveness of the labor force. Quality

of life factors were seen as positive by-products of economic success. Contextual variables, such as legal or regulatory frameworks, were also seen as facilitators of economic forces. Transparency and the rule of law, indispensable requirements for reduced transaction cost, came to be viewed as policy targets directly susceptible to interventions. Finally, political forces were recognized as critical, but only to the extent that they might—or might not—be conducive to an appropriate allocation of economic resources. Dictatorships were generally perceived as bad for the economy, but only because concentration of power led to corrupt practices or capricious policies, both wasteful of scarce resources. Mechanisms for accountable democratic governance were therefore promulgated and their operative institutions—bureaucracies, parliaments, electoral processes, political parties and independent judiciaries—targeted for “strengthening.”

It was assumed that the donor community could supply all of the conditions for development that

underdeveloped societies lacked. Over five decades countless billions were invested for this purpose. Yet the investment failed. The low-level equilibrium turned out to be static rather than dynamic; when development assistance stopped pushing, the development wheel generally stopped moving. Sure, the bridges and infrastructure were built and the credit and education programs were put in place but—as a rule—countries were no more capable of building bridges or extending credit or educating on their own than they had been at the start. Obviously economic development was about more than economics.

Worse yet, the development industry spawned a whole pattern of behavior to manage and exploit foreign aid programs. As recommended strategies for development changed over the years, aid programs were modified—from seeking forward and backward linkages to import-substitution industrialization to regional economic strategies to integrated rural development to export promotion to poverty reduction to market integration to structural adjustment. And as the program guidelines changed, recipient governments and service agencies, as well as technical support specialists in the donor countries, all defined and redefined their structures to fit the donor philosophy *du jour*. An opportunistic *proyectismo* and “grantology” flourished to tap into the latest trend, making countries even less capable of setting their own agendas.

By the turn of the millennium, donors were quietly questioning where it was all going. Foreign aid budgets began drying up—just as the collapse of the socialist camp was increasing the number of potential claimants. As human crises surged in Africa and Eastern Europe, aid programs that remained strong became proportionately more focused on emergency relief and less on development. With the rise of structural adjustment and globalization in the 1990s, the mantra “trade not aid” further justified the drop in foreign assistance budgets. Meanwhile, Eastern Europe was seen largely as a bottomless pit, Africa was essentially written off as unsalvageable, and Latin America became a test case for institutional strengthening to bolster free trade and sustain the transition to electoral systems. Foreign aid meanwhile drew more and more detractors among political constituencies in donor countries.

## The birth of civil society

In Latin America the 1990s and the end of the Cold War brought about a major turning point. For half a century politics in the hemisphere had been a captive of the Cold War mentality: one was either pro-East or pro-West. Competing subtleties within each camp further complicated the ideological picture. Whatever level of sophistication Latins may have claimed for their politics at the time, the fact is that their parameters were all echoes of distant battles. Local tribal rivalries were cloaked in imported Cold War rhetoric. Consequently, the fall of the Berlin Wall was significant. As reference parameters disappeared from the political structure, the floor and ceiling moved. With one side missing, the entire edifice collapsed. Political alignments had to be redefined—who really cared if you were a pro-China communist now? People who formerly would not have been seen in the same room were talking to each other. This made for political renovation at a time when Latin America badly needed it.

Latin America of the 1980s inherited the fallout from the energy crunch and the credit flood of the 1970s, when authoritarian governments had ruled the continent, legitimized by their anticommunist posture and justified by bona fide leftist insurrections. The mid-decade oil crisis suddenly tripled fuel costs, wreaking havoc with budgets. International banks, flush with deposits from the oil-exporting nations, embarked on lending sprees, making huge loans of dubious repayment potential to grateful governments loaded with deficits but unfettered by accountability to constituents. Reality soon came home to roost as the debt burden became unbearable. Throughout the 1980s military governments felt increasingly compelled to hand the mess over to civilians. The end of the cold war, and of the communist menace, provided the final incentive for this expedient democratization.

While a clamor for debt relief gave the new governments some breathing space, the pressure from international financial organizations to get the respective fiscal houses in order was overwhelming. Budget deficits had to be trimmed, but public expectations for social services, heightened since the activist 1960s, pulled in the opposite direction. Elected governments had to deliver despite restrictions on their ability to

*Defined loosely as the institutional space between individuals and the state, civil society had always been a presence in Latin America.*

raise revenue: politicians resisted taxing constituents, and pressure to open markets reduced the potential take from tariffs on imports. The silver bullet became civil society. Defined loosely as the institutional space between individuals and the state, civil society had always been a presence in Latin America. Public life, particularly in remote rural communities, had depended on these organizations to provide services that overly centralized states failed to deliver. Even in cities, civic associations had, on one hand, filled gaps in deficient government services, and, on the other, provided an institutional space for political action and protest when—as often happened—partisan activities were curtailed. But if civil society had been there all along, it had been either remote, charitable or oppositional. What governments now discovered was civil society, as it existed in the Northern countries, could be omnipresent, activist and collaborative. However, some major adaptations were in order. For one thing, the right institutions simply weren't there. For another, civil society in the North worked best at the local level, where the social needs were. But in Latin America, after five centuries of centralization, there remained little public life at all at the local level.

So two complementary trends began to emerge: first, decentralization and “municipalization” to create local spaces for decision making, and, second, “strengthening civil society” to take advantage of those spaces with private resources. Both local government and nongovernmental organizations required major institutional development and major legislative and regulatory changes. As central governments and donor agencies realized this need, an all-out effort materialized to

- decentralize decision making, which meant creating the necessary policy spaces and connecting channels between national and local government;
- devolve control over the budget process, which was much harder to negotiate politically;

- assist municipal governments in organizing to negotiate collectively with national governments for the orderly and effective transfer of these authorities, and in seeking their own funds directly from donors and the market place;<sup>1</sup>
- provide models and technical assistance to municipal officials on effective local governance; and
- offer training and technical assistance in the management and operation of nongovernmental organizations.

Curiously, the prevailing wisdom was that if government were brought to the level of the people it would automatically become more democratic. In fact, both local governments and—particularly—nongovernmental actors began presenting themselves as the voices of the citizens. They were validated as such, thanks to an apparently nervous willingness to do so, in official circles from the township level all the way to the United Nations. Once the U.N. had set the pace in the early 1990s, the United States Agency for International Development, the Inter-American Development Bank and the Organization of American States followed suit. (Summits of the Americas in Miami in 1994 and in Quebec in 2001 are examples of the trend.) But civil society, even when implausibly viewed as a whole, is not the people. It is an associative space where individuals and institutions come to share their civic concerns. It cannot speak in a single voice, for it represents countless voices, many of them not sufficiently influential to be heard. The institutions of civil society must not be equated with the civic culture that should sustain those institutions.<sup>2</sup>

<sup>1</sup> This also entailed opening legal channels of communication at the central level and overcoming resistance to this new kind of accountability. For example, before 1992 Chilean law prohibited local authorities from “colluding” to negotiate with the central government. When the Chilean Congress introduced legislation authorizing such “collusion” on the part of newly created associations of municipalities, the then-minister of the interior reminded municipal officials that they were heads of *administrations* not of *governments*.

<sup>2</sup> Victor Perez-Diaz powerfully makes this point in *The Return of Civil Society* (Cambridge: Harvard University Press, 1993). He credits Spain's democracy not to the institutions of civil society but to the emergence of a democratic culture within them led by the business associations. This bodes well for Spain's cultural offspring in the Americas.

Furthermore, a government closer to the people is not necessarily more representative of the people. Government close to the people will be responsive only if the people are present. This was illustrated in the United States in the 1980s when massive local and state devolutions of federal funds and authority did not automatically result in more participatory local government. In fact, in the absence of the strict scrutiny levied on the national government by the national press, party machines in some U.S. cities had an unsupervised joyride of huge proportions, with their political patronage and discretionary capabilities multiplied by the block grants programs of the time.<sup>3</sup> Regardless, development assistance in the 1990s focused on strengthening institutions of local governance and institutions of local and national civil society. Both are indispensable to a democracy, but neither alone makes a democracy. Strengthening these institutions was a step in the right direction, but an incomplete step, which carried the risk of vesting authority in local governments and equally unaccountable NGOs. The key factor was missing; the people were missing.

PHOTO: PATRICK BRESLIN



### A serendipitously different approach

At the end of the 1960s the Inter-American Foundation bucked the prevailing notion that development was based essentially on macro-economic factors and required macro-economic solutions. The IAF focused instead on people and ascribed the potential for development to their capacity to formulate their problems and devise their solutions. “They know how,” was its motto, spoken in a lone voice to a

*When the international shrimp industry threatened their environment and access to the sea, communities on Honduras’ western coast formed the Comité para la Defensa y Desarrollo de la Flora y Fauna del Golfo de Fonseca (CODDEFFAGOLF). After securing fishing rights and the marine ecosystem for the coastal inhabitants, such as this boy’s family, CODDEFFAGOLF, with a 1992 IAF grant, expanded into agricultural production, eco-tourism and other development activities.*

development assistance community convinced that experts knew better.

More than 30 years and thousands of projects later, the IAF’s once maverick approach is being vindicated by a growing consensus among development professionals that people—not capital—and their capacity to orchestrate their own development are the

<sup>3</sup> See Coalition for Human Needs, *The Impact of Block Grants Programs on Communities* (Washington, D.C., 1988).

foundation of sustainability. Economic development is less about economics and more about people's capacity "to concert," a bona fide English verb defined in Webster's as "to plan or arrange in mutual agreement."<sup>4</sup> (The Spanish equivalent, *concertar*, is much more widely used.) By taking its assistance directly to the people, the IAF made an important assumption that traditional aid programs had ignored. It assumed governments in developing countries were not particularly good at assessing the problems of the poor and were perhaps too disposed to accept the interpretations of development experts. The IAF believed instead that people were best able to identify their own problems. Of course, only governments could manage infrastructure and education and health programs, so traditional foreign aid still had a place. For a long time, unfortunately, other donors had missed the complementarity and saw the IAF's assistance as a feel-good activity for the U.S. taxpayers, with great potential for goodwill but little impact on real development—a notion that the IAF over three decades has failed to dispel.

The IAF also assumed that the aggregate individual capacity to invent solutions was essential to raising the entire economic floor of a country. It wasn't a question of "scaling up" as the IAF has often—and unsuccessfully—struggled to portray its programs. It was a question of spreading out. Time has proved the IAF right; the economist Michael Porter<sup>5</sup> now even defines economic development as the "long-term process of building the array of interdependent micro-economic capabilities and incentives to support more advanced forms of competition." To Porter, economic culture derives from a micro-economic context. Economic development is a behavior, regulated by an economic culture which, as all cultures, evolves through experimentation in response to changing circumstances. And this experimentation happens at the micro level when countless individuals are encouraged

to identify problems and try out new solutions.

Ironically, the IAF was for years accused of spreading a collectivist economic gospel, when—alone among development agencies—it was in fact sowing the seeds of a democratic capitalist culture at the grassroots.

That foreign assistance giants such as USAID, the Inter-American Development Bank and the European Commission have taken up the call of "strengthening civil society" does not invalidate the present work of the IAF. It only points to a lamentable misunderstanding in those agencies as to what underdevelopment is about. Strengthening institutions—public, private and nongovernmental—is indeed indispensable for development, but the strongest institutions will be corrupted in the absence of a culture to make them work. And a culture of development only grows out of its own exercise; we feel it grows best within a democratic exercise. Even enlightened aid donors wishing to work directly with community organizations will approach their potential grantees with technical solutions in search of problems. Unfortunately, large assistance programs must be put together in that manner, along topical lines according to the agencies' best assessment of aggregate country needs. When the programs—in education, health or microcredit—are made available to community candidates, even the most virtuous is tempted to conclude it needs what is being offered.

The potential damage goes far beyond a possibly misallocated resource. By opting for the donor's perception of its needs, the beneficiary community realigns its own relationships to suit the outsider's view. Its capacity to discuss its own issues internally and define its problems in its own terms is thwarted by the packaged project offer. There is, of course, a role for such projects, but only after the community has defined its own problem, considered alternative approaches and chosen one among them. Only then should expert help be brought in, and only to design the project that the community wants, not to suggest it opt into an existing program because it's there. For large donors this means programs should be high on technical capacity and flexibility and low on definition. Tailor-made should be the guideline, not off-the-rack. Large donors should be more responsive, less strategic. They will not develop these countries; these countries will develop themselves.

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<sup>4</sup> For an overview of the theoretical arguments for civic life as the foundation of economic possibility, see Ramón Daubón and Harold Saunders, *A Citizens' Political Process to Enhance Civic Life for Communities' Economic Development* (Kettering Foundation, 2001).

<sup>5</sup> Michael Porter, "Attitudes, Values, Beliefs, and the Microeconomics of Prosperity," in Lawrence E. Harrison and Samuel P. Huntington (eds.), *Culture Matters: How Values Shape Human Progress*, (Basic Books: New York, 2000).



*This Haitian girl learns the intricacies of French spelling in a school built and equipped in 2001 through a partnership initiated by her community and supported by Fondasyon Enstitsyon-yo pou Devopman ki Sòti na Baz-la (FIDEB), an IAF-financed development fund that makes grants to projects mobilizing twice the award amount in counterpart from other sources.*

For the IAF, the adaptation is less. Notwithstanding the pressure in recent years from its regulatory bodies to emphasize quantifiable results over process, the IAF still relies primarily on accompanying communities in designing their own plans. Its approach is still on-the-ground, staff-intensive and flexible. An important modification seems advisable, however. So far, the IAF comes into the process after the community has decided what their problem is and how to address it. Often the IAF will work with the community in strengthening some technical aspects of a conceptually sound project. But this assumes the

community has chosen the particular direction set in the proposed project after actively considering alternatives, not because a member or faction of the community favors the project for other reasons. Often an intermediary service organization will have worked with the community, and the IAF must assume the intermediary did not influence the deliberative choice of direction. This is a big assumption.

Moreover, the IAF assumes the problem addressed by the project is indeed what the community needs to address, and not a symptom of a deeper problem the community hasn't had the time or dedication to

*Only a sense of ownership of the shared issue allows discovery of the potential that something can be done.*

uncover. For example, an educational deficiency could be presented simply and directly as a lack of schools, teachers, books or transportation. Upon discussion, however, the community might discover that it is not taking advantage of educational resources already available—because of a deep distrust of the educational system perhaps rooted in fear or prejudice. A grant might make the matter moot, but only temporarily. Meanwhile resources have been disregarded, and the fundamental problem is likely to arise again at the next level of education, when the damage may be greater. A permanent solution would require dealing with the underlying lack of trust in the system.

Hence a careful naming of the problem is critical, and only an engaged community can give its problem a name. This is a community's first act of ownership of its circumstances. In a survey of the literature on the construction of this civic ownership, the Research Work Group at the Kettering Foundation<sup>6</sup> elaborated on the connection between ownership and efficacy in public action. Only a sense of ownership of the shared issue allows discovery of the potential that something can be done. This sense of potential in turn encourages actual engagement with others, which over repeated instances leads to civic learning, to the capacity to create new agreements about new ways of relating and doing things. It is on these covenants, this social cohesion, this social capital, that effective community development initiatives depend.

### Going a step further

The IAF might therefore consider taking advantage of its experience and go beyond setting the bases underlying the “micro” sense of ownership of the problem. It could take a step further and support this necessary process of discovery of common own-

ership of the “problem beneath the problem” and of the alternative paths to deal with it—before a project is formulated. The investment would be minimal and the payoff could be enormous in terms of enhancing the community's capacity to draw its own designs, to concert.

The IAF might think about the phasing of this conversation and determine in which phase and in what manner it would be most effective to intervene. Two final considerations relate to the manner of intervening. First, development assistance is often seen as only a transfer of funds, yet money represents perhaps the least important of the three elements that foreign aid donors can contribute. The other two are networking connections and advice. Donors are continually in touch with a broad range of development experiences and specialized practitioners. While donors often facilitate contacts between their grantees under controlled circumstances, such as conferences, they seldom make networking a primary activity of their grants. Donor agencies are also constantly involved with development processes and carry in their institutional memories a wealth of experience as to what works and what doesn't. While this experience is applied to funding decisions, a misguided sense of non-intervention often keeps it from being shared. There is, however, an important distinction between offering advice and telling grantees what to do. If the grantees have arrived at the design of a project through a participatory process that probed the root of the problem and alternative routes to address it, the actual design becomes a technical issue. Technical advice from the donor—after the funding decision has been made—would be welcome. This means, of course, basing the funding commitment on the general merits of the process and using it to strengthen the funded project.

Which leads to the final consideration as to the manner of intervening. As long as donors are, by necessity, limited to supporting defined projects and not general processes, projects should only be justified in the context of the civic processes that generate them. Only projects born of a civic process will produce a community's learning to further engage in development. And only projects that leave a residue of learning will be sustainable. The donor should therefore demonstrate an awareness of the broad

<sup>6</sup> Research Work Group, “Pathways to Citizen Engagement,” Kettering Foundation, 2001.

process underlying a project and then choose where in the process to intervene most effectively and how often. The donor's long-term commitment would be to accompany the community along this process even when not directly funding a part of it. This will probably imply funding smaller projects over a longer period, but, again, a donor's main contribution to development is not funds. Its main contribution is helping the communities develop the capacity to act in concert to define their own needs and design their own solutions.

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*Ramón Daubón, currently an associate with the Kettering Foundation, has worked as a deputy assistant administrator with AID, the Ford Foundation's representative for the Andean and Southern Cone countries, and the IAF's senior representative for, successively, Chile, Argentina and the Caribbean. The above article is excerpted from a longer work to be published in its entirety.*

## Recommendations to Donors

As it was created to do, the IAF has fostered grassroots ownership of public processes. It should be commended now for wishing to further its impact by taking advantage of the current focus in development circles on connectedness rather than on economic capabilities. In doing this, the IAF might consider lessons learned from its successful experiences—lessons other donors might also wish to heed.<sup>7</sup>

**1. Fund only projects that support community processes.** All projects should leave a residue of an increased capacity to concert as a required by-product, no matter what other merits the project might have.

**2. Do no harm.** Civic cohesion is shredded when projects are inserted in a community that has not generated them and therefore does not own them. "Good" national projects can, for this reason, inadvertently produce devastating civic distortions locally.

**3. Know the power of the local.** Good policy is indispensable, but it needs a civic culture to give it the space to work. Civic culture is formed in the local community.

**4. Stay with the process.** Continue to accompany a community even after funding ceases. If necessary, opt for duration over intensity of support.

**5. Funding is the least useful of what a donor has to offer.** More important are questioning and advice, networking and referrals, and assistance in discovering resources.

**6. Bank on flexibility and depth of staff more than on funding.** Knowledgeable, adaptable field staff are far more important for development than levels of grant funding.

**7. Encourage communities to go back and rethink rather than urge them to conclude and report.**

**8. Support communities in taking the time to convene all of the voices; discover the problem behind the problem; deliberate and choose among alternatives; assess their own resources and design their own plan; act, evaluate and be willing to recast.**

**9. Be more responsive and less strategic.** Be available as a donor, not directive as a patron. Development is the capacity to devise and carry out one's own strategy.—R. D.

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<sup>7</sup> See Daubón and Saunders, "Operationalizing Social Capital."

# The Third Sector in Global Perspectives

By Lester M. Salamon

*A phenomenon of the late 20th century offers challenges and opportunities for the future.*

It is a special pleasure for me to appear before you today because of the deep respect I have for the Inter-American Foundation's work in fostering a true Third Sector in Latin America. Well before many of us understood what the nonprofit sector was or what it could contribute to social and economic development, the IAF was on the ground in Latin America, fostering linkages and building grassroots networks that now provide for the kinds of partnerships that are the focus of this conference. This was pioneering work, done beyond the glare of publicity and often without a lot of appreciation, but it planted seeds we are now harvesting.

My task is to put this work into perspective by exploring the terrain that IAF helped to uncover. It is one of the least visible, most obscure areas of human settlement—a place far less explored than the upper reaches of the Amazon. I am speaking about that vast collection of institutions and relationships that lies between the market and the state, and for which we too have many names: Third Sector, nonprofit sector, civil society sector, voluntary sector, social economy sector, NGO sector, charitable sector and many others. This is a complex, diverse set of entities embracing elite universities and small day care centers, soup kitchens and cultural institutions, human rights agencies and associations of professionals, labor unions, women's groups, and more.

Whatever their purposes, these organizations share five critical features: First, they are *organizations*; they have some institutional identity. Second, they are *private*; they are not part of the state apparatus.

PHOTO: COURTESY: JOHNS HOPKINS UNIVERSITY



Lester Salamon delivered this keynote address at the forum "Building Democracy from the Grassroots," sponsored by the Inter-American Foundation and the General Secretariat of the Organization of American States.

Third, they are *non-profit-distributing*; they can earn profits but do not distribute them to their owners or directors. Fourth, they are *self-governing*; they enjoy a meaningful degree of autonomy. And, finally, they are *voluntary*; participation is not compulsory and they engage freely given energies or resources. What binds these disparate entities together as a distinct group, as a "sector," is not the activities in which they engage or the fields in which they work, but the values they embody. What are the values that the Third Sector embodies? Clearly, they are multiple. They include altruism, compassion, sensitivity to those in need and commitment to the right of free expression. But underlying these are two fundamental ideas.

The first is the idea of individual initiative for the public good, the idea that citizens have the capability, and the obligation, to act on their own authority to improve their own lives and those of others. This makes the right to form Third Sector organizations as fundamental as the right of free expression. Indeed, in an organizational era such as ours, in which individual expression can have little effect unless citizens combine their voices, the right to associate is a necessary corollary to the right of free expression. Side by side with the value of individual initiative for the public good, however, is the value of solidarity, of community, the idea that citizens have obligations to themselves and to each other. This is what makes organized voluntary action even more important than individual action. I want to make five major points about such organizations, about the contributions they can make, about the challenges

they face, and about what can be done to meet those challenges both in Latin America and elsewhere.

### The global associational revolution

The first point is perhaps the most fundamental. I believe we are gathered here at a special moment in the history of this set of institutions. We seem to be in the midst of a “global associational revolution,” a massive upsurge of organized private voluntary activity, of structured citizen action outside the boundaries of the market and the state, that I am convinced will prove to be as momentous a feature of the late 20th century and early 21st century as the rise of the nation-state was of the late 19th century and early 20th century.

The evidence of this development is apparent everywhere: In France, formation of new associations has grown from 10,000 per year in the 1960s to between 50,000 and 60,000 per year in the 1980s and 1990s. Half of all nonprofit organizations in Italy were reportedly formed in the past 15 years. In Hungary 23,000 voluntary organizations were formed between 1989 and 1993. More than 100,000 such organizations have surfaced over the past eight to 10 years in Russia. More than 1 million nonprofit organizations are now on record in India. There are 210,000 registered in Brazil, not to mention the thousands formed over the past two decades outside the formal registration process. Impressive nonprofit mini-conglomerates have formed in developing

PHOTO: SANDRA WAVERICK



Children receive food from one of 80 communal kitchens of the Instituto de Investigación Nutrición, a 1993 grantee working in Lima, Peru.

regions—like the Grameen Bank in Bangladesh and the Rural Reconstruction Movement in the Philippines. This is not a wholly new phenomenon. We must avoid a myth of immaculate conception that sees the contemporary Third Sector as a development with no historical precedent. The roots of the Third Sector reach deeply in history, but there has clearly been a substantial upsurge and rediscovery.

## Why?

Why is this happening? And why is it happening now? The answer, I believe, lies in four crises and two revolutions that have converged to diminish the role of the state and to open the way for organized voluntary action.

The first of these impulses is the perceived *crisis of the modern welfare state*. Over the past decade or so, the system of governmental protection against old age and economic misfortune that had taken shape by the 1950s in the developed West no longer appeared to be working. Reduced global economic growth in the 1970s helped give rise to the belief that social welfare spending, which had grown substantially in previous decades, was crowding out private investment. The conviction coalesced that an overloaded and over-bureaucratized government was incapable of performing the expanded tasks assigned to it. The politics of the welfare state, moreover, regularly generated pressures for government services that exceeded the public's willingness to pay for them. Instead of simply protecting individuals against unreasonable risk, the welfare state, many believed, was stifling initiative, absolving people of personal responsibility and encouraging dependence.

Accompanying the crisis of the welfare state has been a *crisis of development*. The oil shocks of the 1970s and the recession of the early 1980s dramatically changed the outlook for developing countries. In sub-Saharan Africa, Western Asia and parts of Latin America average per capita income began to fall. Indeed, economic performance in the least developed parts of these regions dropped so precipitously that, given their high rates of population growth, average output per person by 1990 was some 5 percent lower than two decades before. Despite progress in some places—notably the Pacific Rim and parts of Latin America—every fifth person on the globe still lives in absolute poverty.

These discouraging realities stimulated considerable rethinking about the requirements for economic progress. One result has been a newfound interest in “assisted self-reliance” or “participatory development,” an aid strategy that stresses the engagement of grassroots energies and enthusiasm through a variety of nongovernmental organizations. By making the

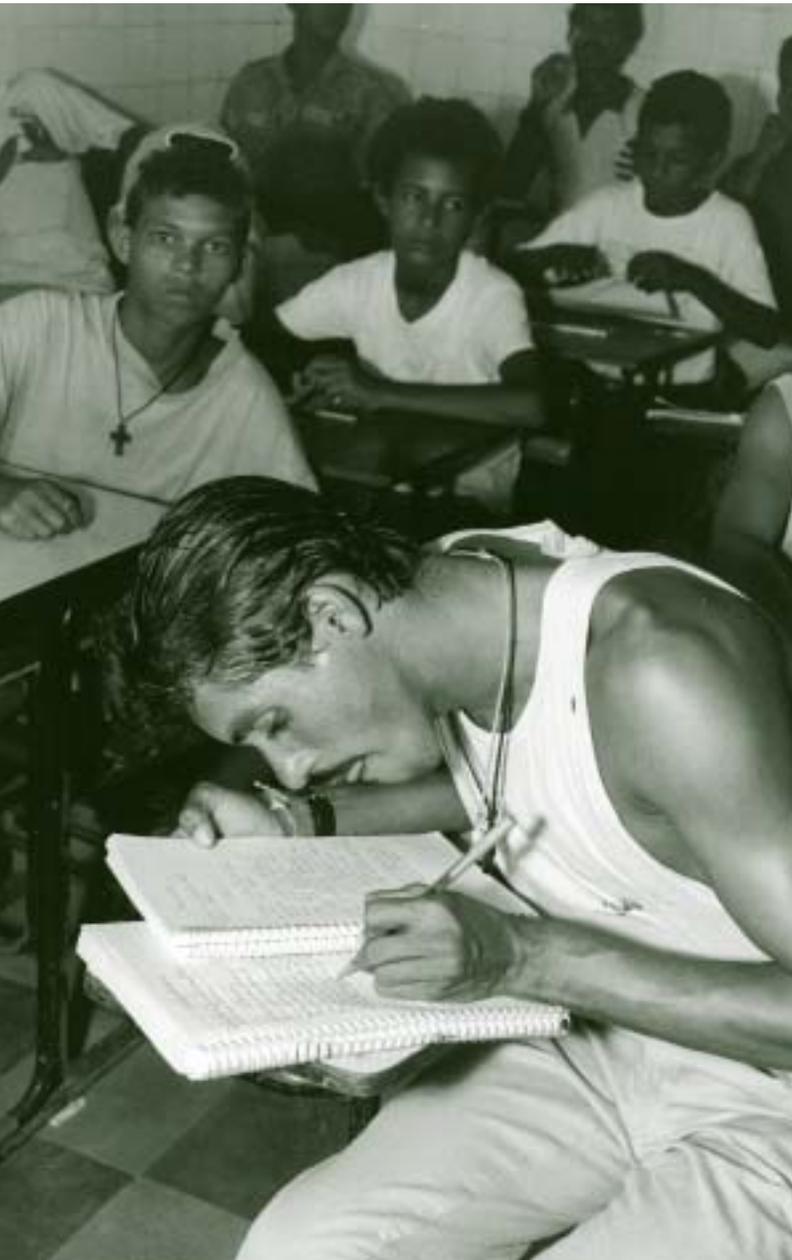


PHOTO: SEAN SPRAGUE

The Centro Josué de Castro in Olinda, Pernambuco, Brazil, received IAF grants in the mid-1980s and early 1990s for a broad range of activities including an adult literacy class offered to coastal fishermen.

poor active participants in development projects, this approach has scored significant productivity gains while circumventing what in many places are weak state institutions. The result is a growing consensus about the limitations of the state as an agent of development and the advantages of engaging Third Sector institutions.

A *global environmental crisis* has also stimulated private initiative. The continuing poverty of developing countries has led the poor to degrade their immediate surroundings in order to survive. Along with wasteful practices and inattention on the part of the wealthy, this has led to serious environmental degradation. Between 1950 and 1983, 38 percent of Central America's and 24 percent of Africa's forests disappeared, and the pace of this decline accelerated in the early 1980s. Overuse now threatens to turn to

desert two-fifths of Africa's nondesert land, one-third of Asia's and one-fifth of Latin America's. In some areas, acid rain and related pollution began to endanger food supplies and significantly reduce life expectancy. As these and other aspects of the environmental crisis have become apparent, citizens have grown increasingly frustrated with government and eager to organize their own initiatives. The stunning rise of Green Parties in Western Europe is one sign of this response.

Finally, a fourth crisis—that of *socialism*—has also contributed to the rise of the Third Sector. While the promise of socialism had long been suspect, the replacement of laggard economic growth with actual regression in the mid-1970s helped destroy what limited legitimacy the communist system had retained. This failure ushered in a search for new ways to satis-

PHOTO: EDUARDO GIL



Beneficiaries of the Centro Eucuménico de Acción Social, a 1989 grantee, meet to discuss the projected housing program for families headed by women in Moreno, just outside Buenos Aires, Argentina.

fy social and economic needs. While this search helped lead to the formation of market-oriented cooperative enterprises, it also stimulated experimentation with a host of nongovernmental organizations offering services and vehicles for self-expression outside the reaches of an increasingly discredited state.

Beyond these four crises, two further developments also explain the surge in Third Sector organizing. The first is the dramatic *revolution in communications* of the 1970s and 1980s. The computer, fiber-optic cable, fax, television and satellites opened even the world's most remote areas to the expanded links required for mass organization and concerted action. This was accompanied by a significant increase in education and literacy. Between 1970 and 1985, adult literacy rates in the developing world rose to 60 percent from 43 percent. Among males, they reached 71 percent.

The combined expansion of literacy and communications has made it far easier for people to organize and mobilize. Communications between capitals and hinterlands that once required days now take only minutes. Authoritarian regimes that had controlled their own communications networks have grown powerless to stop the flow of information through satellite dishes and faxes. Isolated activists can therefore more easily strengthen their resolve, exchange experiences and maintain links with colleagues in their own countries and abroad.

The final factor critical to the Third Sector's growth was the considerable increase in education and global economic growth during the 1960s and 1970s, and the *bourgeois revolution* that it brought. During this period, the world economy grew at the rate of 5 percent per year, with all regions sharing in the expansion. In fact, the growth rate of Eastern Europe, the Soviet Union and the developing countries actually exceeded that of the industrial market economies. This growth not only allowed for material improvement and engendered a new set of popular expectations but also helped create in Latin America, Asia and Africa a sizable urban middle class whose leadership was critical to the emergence of private nonprofit organizations. Thus if economic crisis ultimately provoked the middle class to action, this prior economic growth created the middle class that could organize to respond.

## A major economic force

The nonprofit sector has, consequently, emerged as a major economic force throughout the world. Our work in 26 countries as part of the Johns Hopkins Comparative Nonprofit Sector Project has revealed that, as of 1995, nonprofit organizations accounted for 7 percent of the workforce, one out of every 14 workers or 19.7 million full-time paid employees—six times more than are employed by the largest private firm in each of these countries. It also counts 11.3 million full-time volunteers. Indeed, if the nonprofit sector in these countries were a national economy it would be the eighth largest in the world, with \$1.2 trillion in expenditures. Nor is this merely an American phenomenon. Four of the 26 countries we examined—the Netherlands, Belgium, Ireland and Israel—have nonprofit sectors that, relative to the size of their economies, are larger than that in the U.S.

In the developing world, and in Latin America in particular, the nonprofit sector turns out to be a far more important economic presence than previously recognized, employing close to 4 percent of the nonagricultural labor force in Argentina, and elsewhere at least 2 percent. The civil society sector goes well beyond the NGOs that have long been the focus of international attention. In Brazil, for example, 23 percent of registered nonprofits are social service providers, 20 percent are sports and recreation organizations, and another 14 percent operate in education, research and culture. In Latin America, development and advocacy comprise only a small part of operations, accounting for 7 percent of nonprofit employment, though volunteers bring the figure closer to 10 percent.

## The challenges

All of this is the good news. The bad news is this: For all its dynamism and growth, the Third Sector remains a fragile ecosystem, vulnerable to external threats, unsure of its sources of support, imperfectly rooted and legitimized, and, ironically enough, often endangered by its own success. This brings me to my fourth point: the success of the global associational revolution is far from assured. Serious challenges remain, taking at least four different forms.

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### **The challenge of legitimacy**

Despite the growing importance of the Third Sector throughout the world, and the growing tendency of governments to off-load social functions onto it, this Sector remains in a highly ambiguous position. So dominant is the two-sector model of social life, which acknowledges only the market and the state, that in most countries the existence, let alone the scale and dimensions, of a definable “Third Sector” remains largely unrecognized. The private nonprofit organizations comprising this sector are thus kept segmented, limiting their influence and role. Even in the United States, where the concept of a not-for-profit sector has been recognized for some time, basic information on this sector was largely nonexistent until the early 1980s. The sector is still not covered explicitly in national income accounts, and its true character and role are only dimly perceived. In other countries, even less information is available. The sector is systematically ignored in national economic statistics, rarely mentioned in policy debates, overlooked in the press and in public education, and a glaring blind spot in academic research.

Contributing to the lack of awareness, and resulting from it, is the legal limbo in which these organizations operate in much of the world. Clear legal appreciation of the nature of nonprofit organizations and their rights is still the exception, and many civil law countries have erected significant constraints. In Japan, for example, the right to form a nonprofit organization has been treated as a privilege that individual ministries can bestow or deny. Registration requires the approval of the Ministry of Social Welfare in Ghana, and Egypt’s law empowers the government to disband nonprofit organizations almost at will. Similar or more serious legal difficulties stand in the

way of private support. In South Africa, far from encouraging charitable giving, authorities impose a philanthropy tax. Adding to the legitimacy problems, finally, are pathologies that have tarnished the sector’s reputation: serious scandals over salaries and benefits; use of NGOs to channel public subsidies to politicians; use of foundations for tax fraud.

To overcome these problems, important steps will be needed: First, we need to expand massively the basic information available, to bring the Third Sector out of the shadows and into the light. Fortunately, we are well on our way in some 40 countries through Johns Hopkins’ Comparative Nonprofit Sector Project, the first effort ever undertaken to chart the scope, scale, structure and role of the Third Sector. The goal is nothing less than to put the Third Sector onto the economic map in a systematic way, to determine the circumstances that seem to favor the emergence of vibrant Third Sectors, and to create an ongoing capacity to chart this sector’s health. We are now following up with the United Nations to integrate the nonprofit sector into regular national income accounting. A draft handbook has been tentatively approved.

Basic information, however, is just the first step. As a second step, we need to launch serious public education efforts. The Third Sector can no longer rely on its good works alone to assure public support. It must counter the negative impressions created by the media and those who would discredit its operations. Thirdly, the right to associate must be clearly and unequivocally enshrined in law. Procedures for extending legal status to nonprofit organizations and for ensuring favorable tax treatment for the organizations and their contributors must be simplified. Finally, steps must be taken to ensure accountability. A set of organizations expected to perform important public functions and enjoy significant public subsidies must be responsive and responsible in how it handles funds and carries out the public trust. To this end, the Third Sector should make efforts to develop its own codes of ethics and its own systems of accountability.

### **The challenge of effectiveness**

Equally important is the need to demonstrate the sector’s competence and capability. This is especially tricky. Third Sector institutions, best known for

flexibility, innovation and responsiveness to grass-roots inputs and concerns, face important challenges of management and control. As they move into the center of societal problem solving, moreover, the pressures to improve their management systems and to perform efficiently and effectively will grow. However, the education of nonprofit managers has been hit-or-miss at best and totally nonexistent at worst. Indeed, their reliance on volunteers and their rejection of rigid professional norms has been defended as part of the appeal of nonprofit organizations. For the Third Sector to legitimize its operations, these sentiments will have to change. At least two sets of activities will be required: increased training of managers in the critical "enablement" skills and creation of the infrastructure needed to sustain effectiveness over the long run through information resources, training, mobilization and general moral support.

### **The challenge of sustainability**

Sustainability is mostly at stake in financial terms. Many Third Sector organizations began as purely voluntary endeavors or with start-up support from foreign donors. As they grow in scale and complexity, however, they quickly find themselves face to face with serious issues of survival. The decline of foreign assistance has made the fiscal crisis of the Third Sector particularly acute as more organizations compete for a shrinking pie.

But financial sustainability is not the only sustainability issue the Third Sector faces. At least as important is the sustainability of the sector's human capital. As democratization proceeds in different parts of the world, Third Sector activists find themselves drawn into government positions to replace the officials they had worked so hard to depose, but leaving their organizations impoverished in human terms. The Third Sector is thus the victim of its own success. Ironically enough, while the Third Sector may contribute to democracy, in the short run democracy may undercut its strength. In the face of this challenge, what can be done?

First and foremost, efforts must be made to buttress the Third Sector's private philanthropic base. Private philanthropy may be only one source of Third Sector support, but it is a crucial source of the sector's independence. As foreign sources decline, indigenous

sources of support must increase. This will require propagating the concept of private giving as an obligation of all social strata and not merely the rich. It will also require new attitudes on the part of the business community and greater willingness on the part of Third Sector organizations to reach out to the corporate sector. But the Third Sector needs to avoid assuming that private philanthropy is its only source of sustainable support. A reasonable target is probably 10 percent. Other sources will be needed, including revenue from sales and fees. At the same time, the concept of the Third Sector as a career, instead of a way station on the road to government service, must take hold, along with training capabilities that can foster this career and give it the standing it needs.

### **The challenge of collaboration**

This brings us to the fourth challenge confronting the Third Sector, the challenge of collaboration in three different arenas.

- **Collaboration within the nonprofit sector**

The nonprofit sector faces a formidable challenge in promoting collaboration within its own ranks. In many parts of the world, the recent growth of the Third Sector has taken place not only in opposition to an authoritarian or neglectful state, but also in opposition to what were perceived as traditional, paternalistic or clientelistic private welfare agencies. Beyond that, limited resources inevitably create competition among even like-minded groups. Even when competition is not present, organizations frequently have no sense of being part of a sector and sharing common problems. Environmental groups see no connection with groups working for human rights or promoting better treatment of the handicapped.

Despite this, I would argue that forging a common front among Third Sector organizations is an urgent necessity if the Third Sector is to meet the challenges it faces and deal effectively with the myths and misperceptions that stand in the way of acceptance. This does not require eliminating diversity or merging all agencies into one. Rather, there should be ways to find common ground on a number of critical issues. These might include clarifying the legal basis of the right to form Third Sector organizations for a wide variety of peaceful purposes; protecting tax incentives; promoting the ability to advocate on

behalf of particular causes or communities; providing critically needed services for the sector—accounting assistance, training, group purchasing arrangements and the like. Over time, the Third Sector must develop a voice and a capability to pursue joint action on issues of common concern if it wishes to be effective in the broader society.

- **Collaboration with business**

Third Sector institutions cannot expect to become permanently entrenched in their societies unless they find a way to generate business concurrence and support. Interestingly, globalization, for all its drawbacks, may offer opportunities here. Globalization can make corporations accountable at home for their activities in faraway places, thus giving them an incentive to cooperate with local nonprofits in addressing public problems in order to enjoy a good reputation. More generally, Third Sector organizations can give businesses the legitimacy they seek.

- **Collaboration with the state**

The nonprofit sector's relationship with the state is one of the most important relationships it can have. Yet the nature of this relationship has been obscured in much of the rhetoric surrounding the sector's development. Indeed a pervasive myth of voluntarism obscures the real connection between these two spheres. Central to this myth is the belief that an inherent conflict exists between the nonprofit sector and the state, and that private giving and voluntary action are the only valid sources of Third Sector support. This myth finds considerable support in the posture of state authorities toward nonprofit organizations in many parts of the world. State authorities have often been repressive and unresponsive to citizen concerns, and civic associations have often emerged precisely to counter state control.

PHOTO: BRUCE FERGUSON



*A tiny beneficiary is weighed by a neighborhood volunteer monitor with Pastora da Criança, part of a mother-infant health project funded in the 1980s in Cambé, Paraná, Brazil.*

Yet, side by side with evidence of conflict is an extensive record of interdependence and collaboration. Even in the U.S., where the tradition of philanthropy and voluntary action are thought to be most highly developed, only 11 percent of nonprofit income comes from all sources of private giving combined—individual, foundation and corporate. In contrast, government support is almost three times as great. Despite the emphasis on the nonprofit sector's independence from the state, collaboration, not conflict or competition, has been the characteristic relationship for most of American history. The very first U.S. nonprofit corporation, Harvard College, was created by an act of the Commonwealth of Massachusetts in the mid-1600s and benefited from a special corn tax enacted specifically for its support. Two-thirds of the government moneys used to aid the poor in New York City in the 1890s went to private, voluntary groups. Although these relationships may have grown significantly in scope and scale in the 1960s and 1970s, they are hardly new. Indeed, we have developed a widespread system in which government relies on other social institutions, particularly nonprofit groups, to deliver the services it finances.

Elsewhere, the picture is even more pronounced. Our Comparative Nonprofit Sector Project revealed that government functions as the Third Sector's tax collector all through Western Europe. It is the dominant source of nonprofit finance, accounting for as much as 77 percent of the total in Ireland and Belgium, 64 percent in Germany, and close to 60 percent in the Netherlands. Nor is this an accident. It results from explicit policy as reflected in, for example, the Dutch practice of "pillarization," or organizing social functions like education, health care, social services along religious lines and providing public subsidies for the resulting institutions. The key to avoiding a threat to independence is not refusing government support, but making sure other sources of support are available as well.

## Toward civil society: a new paradigm for solving public problems

What all of this suggests is the need for a new paradigm, a new approach, for addressing public problems in the 21st century. This is my fifth point. Two such paradigms have dominated our thinking up to now. One of these stresses sole reliance on the market and the other sole reliance on the state. Both of these models are bankrupt. The market model, though it has recently staged a remarkable recovery, essentially collapsed in the Great Depression of 1929; the public sector model fell with the Berlin Wall.

To date no alternative paradigm has surfaced to replace these two. To be sure, the temptation will be strong among Third Sector activists to advance the "nonprofit sector" as the panacea and to urge complete reliance on it. This should be resisted. Today's problems are too complex for any one sector to handle. If we are to make progress on these problems, the combined resources of all three sectors must be mobilized.

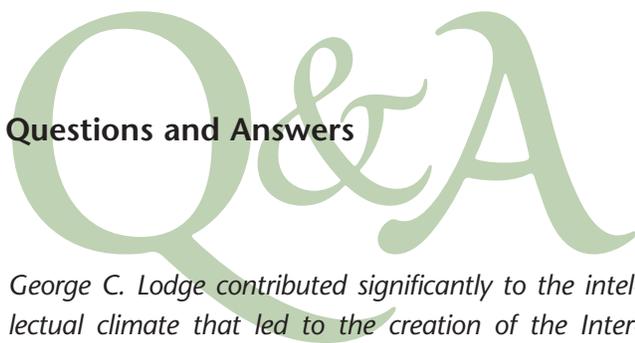
This suggests that the appropriate paradigm for the 21st century is a *paradigm of partnership and a politics of collaboration*. A "new governance" emphasizing explicitly and centrally that collaboration, not separate action, by the different sectors, is the best hope for achieving meaningful progress on the serious problems that confront us today. I would suggest this is the true meaning of the "civil society" about which we hear so much today—civil society not as a sector, but as a relationship among the sectors. A civil society is thus one with three distinct sectors but in which these sectors have found ways to work together for the public good.

Given the suspicions on all sides, this will not be easy to achieve or to manage. But it seems to me to offer the greatest prospect for the future.

Let us, therefore, set about creating such civil societies.

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*Lester M. Salamon, a pioneer in the empirical study of the nonprofit sector, directs the Center for Civil Society Studies of Johns Hopkins University.*



## George C. Lodge

By Audra Jones

George C. Lodge contributed significantly to the intellectual climate that led to the creation of the Inter-American Foundation. In the late 1960s, Lodge published two articles in *Foreign Affairs* and a book, *Engines of Change*, calling for the United States to support revolution and radical change in Latin America. In those works, which appeared at the height of the Cold War but read surprisingly contemporary today, Lodge insisted poverty, not communism, was the biggest threat to U.S. interests in the Americas. His second *Foreign Affairs* article, published in 1969, urged an official commitment to improving conditions for this hemisphere's most destitute citizens through an "American Foundation" that would "find and fund the engines of

change which work directly to revolutionize Latin American social and political structures." That same year, Congress created the Inter-American Foundation.

Although we at the IAF obviously consider the passage of this legislation a momentous event, the role Lodge played is just a line on his impressive resume (see box). Now retired from Harvard Business School as Jaime and Josefina Chua Tiampo professor of business administration, emeritus, he continues to pursue his professional interests, publishing prolifically and lending his presence at conferences worldwide. Audra Jones, IAF representative for Argentina and Venezuela, caught up with Lodge recently and invited him to share some thoughts with us.

**Q:** What prompted the views you expressed in your articles and in *Engines of Change*?

**A:** As assistant secretary of labor at the end of the Eisenhower Administration and subsequently during the Kennedy Administration, I considered U.S. foreign policy in Latin America. It seemed to me that pieces of the United States government were increasingly supporting military and police states in the name of anti-communism. The rhetoric of American foreign policy—promoting land reform, tax reform, educational reform—was all eclipsed by U.S. support for the status quo rather than action to promote these reforms. At that time, in the 1960s, I became preoccupied with what we really mean by "development." When combined with "economic," the word becomes benign; it is a phrase no one could oppose. But what does development really mean? In many places, change—big, irreversible change. If we accept this to be true, the question then becomes who is changing whom for what reason and by what right. So development is profoundly controversial. It is political, social, civil and psychological, not just economic. Therefore it is a mistake to assign development exclusively to

economists because it is systemic and requires a more holistic approach.

**Q:** How did your publications influence the creation of the Inter-American Foundation?

**A:** I wrote the second piece in *Foreign Affairs* in 1969, "U.S. Aid to Latin American: Funding Radical Change." It was in this article that I proposed establishing a second channel<sup>1</sup> for foreign assistance in Latin America, one based on supporting grassroots nongovernmental organizations. I proposed an American Foundation as the organization to support this type of foreign assistance. At the time, Rep. [Dante] Fascell [who chaired the House International Relations Committee] read the pieces and was influenced favorably by USAID and others involved in foreign assistance, and he presented the American Foundation as an amendment to the foreign aid bill.

<sup>1</sup> According to the article, the first channel was envisioned "to assist national governments and those public or private institutions and enterprises which are generally connected with or endorsed by government."

**Q:** *What are some of your memories of the brand-new Inter-American Foundation?*

**A:** One of the first grants the Foundation made was to a Colombian organization representing coffee plantation workers to provide resources for the workers to organize. The U.S. Embassy responded unfavorably to the idea, saying that the Colombian government would oppose this type of support. I traveled to Bogotá with Bill Dyal, the IAF's president at the time, to meet with the Colombian president who told us that if we made the grant he would be obliged diplomatically to write a letter contesting it. However, he added that personally he did not oppose the grant and that he would rather these plantation workers organize themselves in the name of self-help with IAF resources than to be organized by some faction with a political agenda. It is at that time that I realized that government is not a black box; it is much more human and not so simple.

**Q:** *You indicated in your 1969 article in Foreign Affairs and later in Engines of Change that you saw a clear role for the private sector in development. Do you still feel this way and, if so, why?*

**A:** Corporations have it in their power to be the world's most effective engines of change in the reduction of poverty for several reasons. The first is the competence they bring: skills, technology, access to global markets and credit. Second, the corporation brings access to power. It can reach levels of government, get a road built or a power line strung. Third, the corporation can protect the change process it has begun from the forces of the status quo who would destroy it. Fourth, these three capabilities give the authority and the ability to reach and be trusted by the most remote of the poor. And finally, business has continuing will. It is not here today and gone tomorrow.

Today globalization—communications and transportation technology and global financial interdependence—bring the poor and their effects to our doorsteps. Companies such as Intel, Hewlett Packard and Philips have developed programs aimed at helping millions of uneducated, underprivileged and unconnected people to leap-frog into the digital age.

Companies, in their own interest, have introduced the systemic changes to release thousands from poverty. Why? I think there are six reasons:

First: You can kill Osama bin Laden and destroy his Al Qaeda network. Terrorism, however, will persist until we deal with the poverty from which it draws life. It flourishes among those who think they have nothing to lose and much to gain from reallocating power in the world, especially if one believes that death offers more attractive prospects than life.

Second, is a variant of terror: The poor of the world are hammering with increasing urgency at the gates of the rich, wanting what they cannot obtain at home.

Third, profits: For business, there is money to be made by increasing the number of consumers in the world.

Fourth, our humanity—and guilt—is touched by pictures of poverty in the media.

Fifth, the world's financial stability depends upon the ability of the poor countries to pay their debts to the rich world and this requires that they be competitive in the world economy. To be competitive they must make full use of their human resources.

Sixth, financial stability also depends on political stability which poverty undermines. The poor are outside the corridors of power. They are unable, for example, to support the efforts of a reform-minded government to act on their behalf and to deny the status quo its largesse. Thus come huge government deficits, foreign debt and financial chaos, as in 1997 when responsible seers predicted global collapse. The biggest item in Brazil's deficit, for example, was pensions to government employees. If Brazil is going to sustain the pension reforms of President Cardoso, he and his followers must have a broader political base on which to rely and that means bringing into the political system the impoverished.

When it is all said and done, in many parts of the world, especially Latin America, if poverty is going to be reduced, it will not be reduced by governments, nor will it be reduced by charities because there isn't enough charity money to make a difference. It will be reduced by business corporations and it will be reduced as an integral part of their profit-making activities, not as a pro bono sideline. Governments can and must help, but businesses are the engines of change, the means by which the systems that breed and sustain poverty will be changed.

## George C. Lodge

In 1961, George Lodge arrived at Harvard Business School to complete his first book, *Spearheads of Democracy: The Role of Labor in Developing Countries*. He didn't have a graduate degree and never expected to become a professor. But in a remarkable career that has spanned decades and transcended the confines of a particular discipline, Lodge has produced 12 books and a host of cases and articles; served as chief architect of the school's cornerstone business, government and international economy courses; and guided the launch of the Central American Institute of Business Administration (INCAE).

After enlisting in the U.S. Navy at 17 during World War II and graduating with honors from Harvard College in 1950, Lodge began his career as a reporter with the *Boston Herald*. A 1954 interview with Labor Secretary James P. Mitchell led unexpectedly to a post for Lodge as assistant secretary of labor for international affairs in the Eisenhower administration, a position to which he was appointed several years later by President Kennedy.

In 1962, Lodge, who had strong views about issues such as foreign aid, unemployment and civil rights, entered Massachusetts politics. Having finished *Spearheads of Democracy: The Role of Labor in Developing Countries* (a book inspired by his Labor Department duties, which had taken him to Latin America, Africa and Asia), he decided to run for the U.S. Senate as the Republican candidate against Edward M. Kennedy.

Lodge lost the election and turned his energies to teaching and to the Central American Institute of Business Administration, which is still flourishing in Costa Rica, Nicaragua and other Latin American countries. At the same time, he began a three-year research project in Panama studying the process of change in a developing country. His book, *Engines of Change: United States Interests and Revolution in Latin America*, inspired the U.S. Congress to establish the Inter-American Foundation, an independent agency devoted to grassroots development, with Lodge as vice chair of its board of directors, a position he held for seven years.

In Central America, Lodge realized that ideology could be used as a multidisciplinary analytical tool for comparing countries and understanding change within a particular nation. The concept was pivotal in his award-winning book, *The New American Ideology*, and nine years later in *The American Disease*. A 1987 book with Harvard's Ezra F. Vogel, *Ideology and National Competitiveness*, looked at the relationship between ideology and economic performance. In the mid-1980s, Lodge joined Harvard professor Bruce R. Scott in contributing to and editing *U.S. Competitiveness in the World Economy*, which focused on the burgeoning U.S. trade deficit. He also taught a wide range of courses. Since retiring from the active faculty in 1996, Lodge has continued his research on globalization and the development of emerging nations.



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*The above appeared in Harvard Business School's August 2000 online Bulletin in connection with George C. Lodge's receipt of the school's Distinguished Service Award. The president and fellows of Harvard College hold the copyright to this material which was reprinted here in edited form with their kind permission.*

By Edgar Darío González

All photos courtesy of Edgar Darío González

*An Argentine director recalls the changing stages in the life of a theater company whose commitment to education sparked creative impulses in classrooms throughout Bolivia more than 20 years ago—and perhaps an encore.*

Bolivia's Teatro Runa was born in 1975, when I met with a group of aspiring young actors in Cochabamba's Portales Pedagogical and Cultural Center. They had just attended a seminar with Argentine maestro Víctor Mayol, founder of the Buenos Aires Studio Theater, and wanted to continue with me. So we called ourselves Teatro Runa and started meeting daily from 6 to 10 p.m. In exchange for work space, we all donated at least 30 hours a week to the Portales Center. Our group included young people from 13 to 22 and one little five-year-old girl. Although the students in my classes had never worked in the theater, they showed great energy and determination "We're serious about this," they used to tell me.

Our sessions included psycho-physical exercises and structured voice, rhythm and ear training directed at developing the actor's three basic skills: concentration, evocation and imagination. We would begin with relaxation and concentration exercises that separated our work in the theater from the day job or studies we had started at 7 a.m. Then we continued with very basic movement—walking, turning or jumping—to increasingly more complicated rhythms or to none at all or to an imaginary tempo broken by unsettling interruptions. This taught us control and tuned us like musical instruments. Our voice exercises involved breathing, work with resonators, the discovery of our own timbre and tonal power, and perfect articulation.

Instead of using theatrical texts, we read stories and improvised from them. Our first "script" was Antonio Paredes Candia's *Cuentos Populares Bolivianos* [popular Bolivian stories]; our next, the play *Los casos de Juan el Zorro* [the adventures of Juan, the fox] by

Bernardo Canal Feijoo. Everyone would pick a character and interpret the role using his or her own words. We spoke of everyday events through the animals in those fables—the oppressed Fox and the oppressor Tiger, for example. I had a strict rule against parroting the author's text, even if it were richer than any lines we could invent. Anyway, theater is action first, then words. "Try to communicate by a look, body language, touch, feelings." I used to tell the students. "Then, if all else fails, speak, but only words from your soul." This gave our work a spare, precise, substantive language, visceral and heartfelt. In the bargain, I discovered the risqué sense of humor native to Cochabamba, and I often laughed until I cried.

I would think a great deal about my own teachers—Oscar Fessler, Jorge Hacker, Juan Carlos Gené, Perla Chacón, Pedro Asquini, Renzo Casali and Liliana Duca—and of all I had learned with them in Argentina. But in Cochabamba, I discovered music and color, vital elements in Bolivian theater, as essential as bread. "Tone-deaf, like an actor," goes an old saying, referring to most actors' notorious inability to sing, but it didn't apply to these youngsters. They were filled with music and sang as easily as they spoke. Music was part of rehearsals, insinuating itself onto the stage with a life all its own, a happy uproar or sad lament to guitar, panpipes, chaschas and bass drum.

On Saturdays and Sundays we made masks, props, puppets, lighting equipment, costumes and frames mark the performing space—and we ate together. Each actor selected the colors of his or her costume, and my wife, Mirta Simonetti, a fine arts graduate, harmonized them. Mask construction was an important event, with the performers creating

their own clay molds and then overlaying them with paper-mâché. With no money in the till, we improvised 10 spotlights from empty oil cans. The lighting panel was also homemade and very primitive. Later, with the IAF's help, we bought professional lighting and sound equipment.

Our first production, *Vida, Pasión y Muerte del Atoj Antoño* [the life, love and death of Atoj Antoño], was a satire designed to make our audience think as well as have fun. Its success, the result of more than 450 hours of work, produced a festival-like euphoria, and audiences from all walks of life joined us for more than 270 performances, an unprecedented run in Bolivia. After our debut in a theater, we put together a makeshift stage in the old stables of the Portales Pedagogical and Cultural Center, then toured Bolivia's lowlands and highlands, urban barrios and remote villages, performing in basketball courts, university classrooms, fields, taverns, schoolyards, mining centers, barracks, orphanages, prisons, clubs, plazas,

*"Our project was aimed at convincing educators that the theater, puppets, music, body language and masks could be exploited like a didactic gold mine."*

open-air theaters, and anywhere else it occurred to us. Our meager budget sometimes allowed for modest pensions, but we also slept on stages, in classrooms and in private homes. Tens of thousands saw the show, and the intense audience contact always energized us after our long, uncomfortable trips.

After an invitation from UNESCO to participate in the 1978 International Group Theater Festival in Ayacucho, Peru, we decided to devote full time to the theater. Unfortunately, we were working in a context of fear and insecurity, and some colleagues were imprisoned or disappeared. After the umpteenth coup d'état, several announced they were leaving. Those departures were painful, but we continued and welcomed new members.



*Future primary and secondary school teachers in training at the Escuela Normal de Warisata (near Lake Titicaca) learned to use puppets and other theatrical elements in rural classrooms as part of Teatro Runa's IAF-funded outreach to educators in the early 1980s.*



*Masks made by actors of the Teatro Runa.*

In 1980, financial assistance from the Inter-American Foundation breathed new life into our group, and we implemented our theater and education project. "Educating is, above all, creating a loving atmosphere, and that is done first through cordial relations and then through intelligence," said Adolfinia Risolía, an Argentine writer-educator of the 19th century. She had been the impulse behind Argentine educational reforms based on mutual respect and the development of creative abilities, and Teatro Runa took her advice seriously. Our project was aimed at convincing educators that the theater, puppets, music, body language and masks could be exploited like a didactic gold mine. We had three objectives: to train teachers, to develop a favorable attitude toward techniques that allowed for different ways of learning, and to restore creativity to popular culture. Through a technical assistance program for new theater companies, we also shared our experience with 170 participants from 27 diverse groups. Additionally, we held hundreds of puppet shows for children and adults. As Goethe once said, "Children and intelligent people like puppets."

With the IAF's support, we covered more than 30,000 kilometers. Our seminars in rural and urban teachers' colleges were attended by 2,924 students from Cochabamba, Sucre, Tarija, Oruro, Potosí, La Paz and Santa Cruz. Based on our follow-up, I can say the normal schools applied our teaching to their syllabus and our students used theater and puppets in their classroom teaching. This new approach to the teaching-learning process challenged the teacher's imagination. Additionally, the traditional rigidity in dealing with behavior problems, the spare-the-rod approach, gave way to a healthier dialogue, bonds of affection and the (partial) elimination of shouting to make oneself understood.

During that period, Teatro Runa settled into our new home, a beautiful rustic building in the Lajas Canton, in the department of Tarija, where we had a surprise visit. Our uninvited guests were two military officers and a group of young paramilitaries who, with their automatic weapons and hand grenades in plain view, searched the premises and arrested a 23-year-old actor and me. When they threatened us, we showed them proof we were receiving support from



Scenes from Teatro Runa's most successful production, *Vida, Pasión y Muerte del Atoj Antoño* [the life, love and death of Atoj Antoño], based on Bolivian folklore.



Teatro Runa puppet show.

the Inter-American Foundation. After a few hours they released us and we resumed work. Later, my wife's disappearance at the hands of the Argentine military and the tragic death of my son in a 1982 accident broke my heart, and I made the mistake of leaving Bolivia. I should have stayed and mourned there.

Instead, I spent the next 17 years working in the theater and film in Argentina, Spain, Switzerland, Cuba and Italy as an actor, puppeteer, singer, director and script writer. I also taught theater and film arts to university students, young prisoners, children, teenagers, elementary and high school teachers, and in classes for people with disabilities. Some of Runa's actors also scattered and today their creative talents are recognized in Nicaragua, Italy, Switzerland, Venezuela, Chile and Sweden as well as in Bolivia. We've stayed in touch through regular correspondence, phone calls and frequent travel. Between 1986 y 2002, I made several trips to Bolivia. Each time I was in contact with institutions and teachers who had participated in our project and it has given me great pleasure to confirm that our work had not been in vain. The Bolivian school system has opened up to

new methods in which creativity is the lynchpin. Many were taught through our work, but we were not alone; other educators and artists also contributed to the new mentality.

After an 18-year absence, I have returned to Tarija. I've written—and I'm looking for a good editor for—*Cantos del camino* [songs of the road], a book of poetry; *Las voces de América* [the voices of America], a theater book; and *Theater and Puppets in Education*. And I am preparing a theater and education project for 2002 to 2004. Former students and colleagues, all of whom have matured as artists and human beings, will be with me in this new era in Bolivia. I know this will make our friends happy, especially Kevin "Benito" Healy, of the Inter-American Foundation, who believed in our original project. Thanks to everyone who helped.

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*Edgar Darío González is a seasoned veteran of the Buenos Aires stage, one of the world's most vibrant theatrical traditions. He submitted this article from Milan, Italy, where he is temporarily working with tangoseis' production of Gardel Clips.*

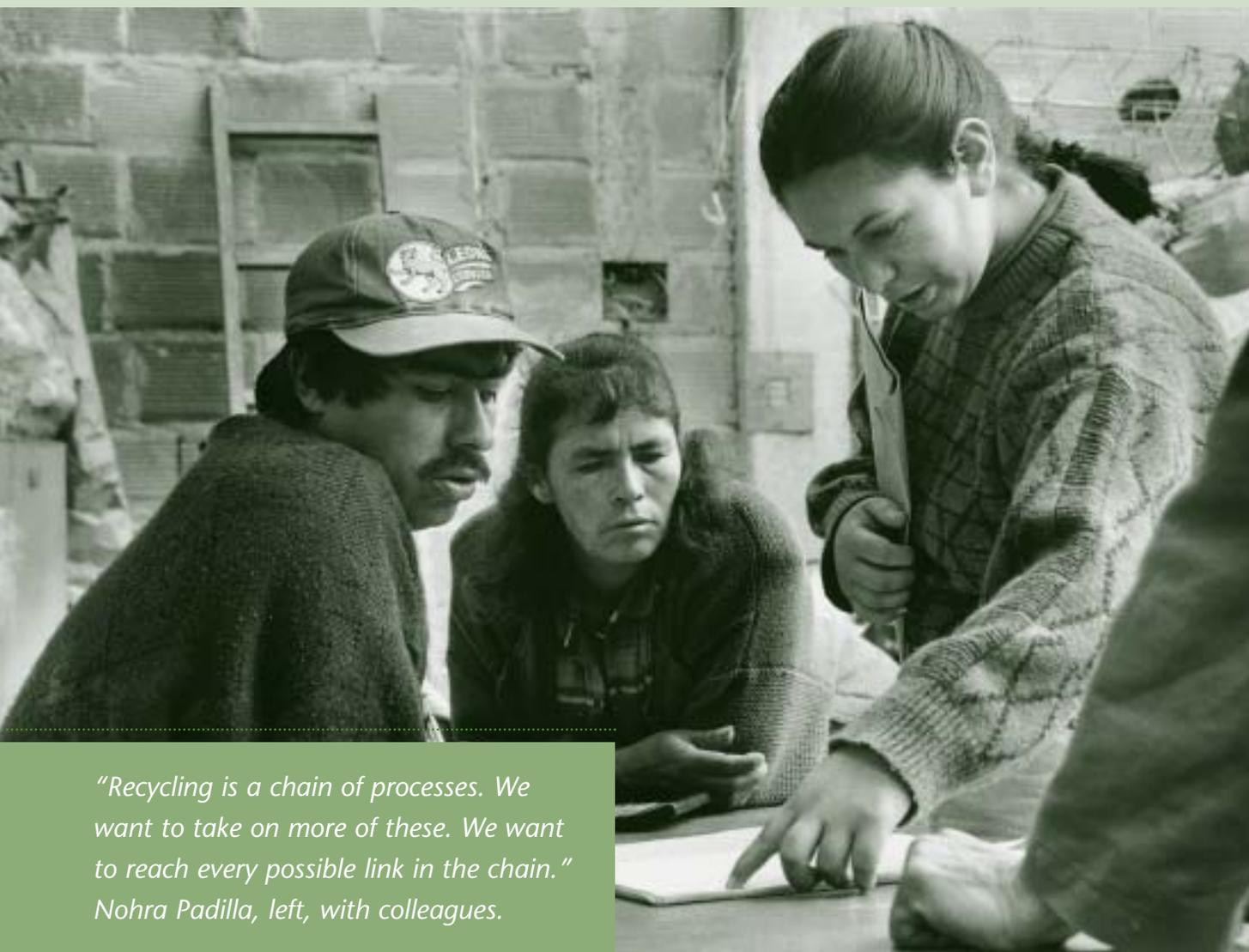
# Bogotá's Recyclers Find a Niche— and Respect

By Patrick Breslin

All photos by Patrick Breslin

In Colombia, recycling became an occupation in the late 1940s, when hundreds of thousands of people began to flee mounting political violence in the countryside and moved to large cities, like Bogotá. They found space where they could and improvised shelters from cardboard and flattened cans. Many of them, unable to find other work, tried making a living from what other people threw out. Today more than 100,000 families support themselves by recycling solid waste and selling it.

Recycling by itself offers a future of continued and probably deepening poverty. People turn to it because they have little training and, consequently, few options. Most recyclers are on the job seven days a week; many work two shifts daily. The hours aren't reflected in their earnings—roughly equal to what they would make selling newspapers or lottery tickets on the street. Compared with the available alternatives though, recycling offers more independence and an immediate payoff, which many recyclers prefer to



*"Recycling is a chain of processes. We want to take on more of these. We want to reach every possible link in the chain."  
Nohra Padilla, left, with colleagues.*

a biweekly check. They see themselves as hard-working and honorably employed. But they know others consider the work dirty and look down on them. Often their children are teased at school.

Barrio Las Marías, on the southern edge of Bogotá, offers a contemporary example of how poor migrants make a place for themselves and how the context of their occupation is changing. The area used to be a swamp. Squatters filled it in and now it's home to some 200,000 inhabitants, many of them recent arrivals driven from rural Colombia by poverty and the relentless violence. The difference today is that people have learned the benefits of organizing and there are agencies that help them. In 1999, some 35 families formed their own Asociación de Recicladores Las Marías and became part of a broader Asociación de Recicladores de Bogotá, a network of 22 similar groups, assisted by the Colombian NGO Fundación Corona, which has received an Inter-American Foundation grant. Corona's projects in Bogotá's poorer areas include helping the network establish its headquarters, which houses a day care center and provides loans and advice to neighborhood organizations.



*"We were raised among the garbage. People used to say we were human trash. That's changing. Now they call us recyclers."*

The Fundación's support proved invaluable when Bogotá's municipal government began to develop a master plan for city services, including garbage collection. The industry was modernizing; clearly, the recyclers had to adapt or be excluded. Corona arranged training for the Asociación's leaders in management,



administration, research and presentation of information. This helped with access to the deliberations of the commission pondering changes and reforms to the ordinances affecting garbage collection and recycling. Asociación representatives attended every meeting, providing a steady flow of information and suggestions. Increasingly, the commissioners began to accept their input and then to rely on it.

The outcome was a plan that will establish recycling centers in six zones of Bogotá, most of them in rehabilitated warehouses. And the Asociación won an exclusive 10-year contract to staff those centers. "It's a substantial change," said Nohra Padilla, executive director of the Bogotá Asociación, and herself the daughter of recyclers. "It means we've been recognized."

The Asociación has transformed recycling from itinerant scavenging into a business. Its centers provide steady jobs and salaries for many recyclers, but for recycling to be profitable, workers need to provide new services. Padilla and other leaders envision opportunities for Asociación members in reforesting urban green zones as well as in negotiating janitorial and other contracts with the city and private businesses.

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*Patrick Breslin directs the IAF's Office of External Affairs.*

*"People cooperate now. There's recognition that, for example, we help preserve trees. If this pile of shredded paper weren't recycled, think of the trees that would be cut down."*



*"It's a majority of men in the recycling work force , but there are more women than in other lines of work and the number of women leaders is high in proportion to their numbers." Fundación Corona report.*



*"I have three children. They're studying so they can become someone better than me." Meanwhile, children help their parents or play at the work sites.*



*"The casa de recicladores helps us with services we need. It takes care of our children. That's important."*



*Police provide security and, sometimes, participate in the children's activities.*



*"The day care facility has room for 150 children up to age 12. We provide breakfast, lunch, snacks, medical services, dental services."*

*"Compared with our parents we're more organized. We have uniforms, an identification card. We're represented by our association. We've managed to earn some appreciation. That's why it's better."*



**A banking system for Haiti's poor offers a simple solution to a complex problem with remittances.**

### What impact do remittances have?

Haiti is the most impoverished country in the Western Hemisphere. Many people would argue that there are two forces holding its economy together today: *ti machann*, or women street vendors, often referred to as the “backbone of the Haitian economy,” and Haitians abroad who send money home to their families and friends. Without this steady stream of dollars flowing to Haiti, it is unclear whether the economy would survive at all.

The best estimates suggest yearly remittances to Haiti totaled \$720 million in 1999. According to a 2001 study by the Inter-American Development Bank, this represents 17 percent of Haiti's gross domestic product. Most interestingly, this money is *not* coming from a few wealthy Haitians overseas but from the many working Haitians of the diaspora. The World Bank estimated there were 872,500 *legal* migrants from Haiti in the United States in 1998.<sup>1</sup> The total diaspora is much larger, since it includes illegal migrants to the U.S. and migrants to other countries, mostly notably the Dominican Republic. In 1990, 84 percent of U.S. job-holders who immigrated from Haiti after 1980 earned less than \$20,000 per year and were living, many with dependents, predominantly in costly urban areas led by Brooklyn, New York, and Miami, Florida.<sup>2</sup> Haitians in the Dominican Republic have generally worked in sugar cane fields or engage in small commerce. So the \$720 million has been arriving in very small amounts—a common remittance from the U.S. is \$100 to \$200 monthly—from many people who are making great sacrifices for family members back home. Ask these Haitians why they send the money, and they tell you, “Because I want to help my mother, who

is raising my younger brothers and sisters.” Or, “Because my grandmother is sick and needs some medicine. Or, “Because I must pay the tuition of my nieces or they won't be able to go to school.” Rarely do they say, “Because I want to strengthen Haiti's economy.” But that is what they are doing every month they send whatever they can afford.

### How do Haitian migrants send money home?

The problems with the transfer of remittances are numerous. The vast majority of Haitians, whether in Haiti or abroad, can be classified as “unbanked.” They do not use the typical financial services banks offer; to cash their paychecks, they use a check-cashing business and pay exorbitant fees. To send money home, they may use delivery services typically charging between 8 and 12 percent and they might pay another 10 to 15 percent to exchange the money for *gourdes*.<sup>3</sup> Those who cannot afford these fees have few alternatives. Most send their money home with friends of friends of friends—in cash to a country where robberies happen all the time. Often they never know if the money reaches the intended recipient, who, for example, may not read or write or have access to a telephone.

### What is Fonkoze?

Essentially, there are three ways to improve remittance flows to Haiti: increase the education and skill level of Haitians planning to migrate, so that they get better jobs when they do; increase the disposable income of Haitians living overseas, so they can send more money home; or decrease the costs of transferring the money to Haiti. Fonkoze, Haiti's Alternative Bank for the Organized Poor, intends to improve remittance flows to Haiti through the third strategy. An economic alliance of peasant organizations,

<sup>1</sup> World Bank, *Haiti: The Challenges of Poverty Reduction*, vol. 1 (Washington, DC: World Bank, 1998), p. 12.

<sup>2</sup> Based on data from U.S. Department of Commerce, Bureau of the Census, Decennial Census (Washington, DC: Government Printing Office), 1990.

<sup>3</sup> Martin, Susan F., *Remittance Flows and Impact*, Institute for the Study of International Migration, School of Foreign Service, Georgetown University: Washington, D.C., May 2001.



*Ti machann are, along with remittances, an economic force in Haiti.*

women's collectives, cooperatives, credit unions, *ti machann* groups and religious communities from throughout the country, it is dedicated to rebuilding Haiti's economy by empowering people and community organizations to engage in successful, income-producing activities. With 18 branch offices throughout Haiti, Fonkoze provides a full range of financial and educational services: a remittances program, microcredit loans to street vendors, a range of savings accounts, currency exchange, literacy and business training, and business development loans and technical assistance.

Legally registered in Haiti as a nonprofit foundation, Fondasyon Kole Zepol, better known as Fonkoze, the acronym for its Creole name, is now positioned to spin off the assets and liabilities of most of its 18 branches and create Haiti's first microcredit oriented commercial bank oriented toward microcredit. Called Bank Fonkoze in both Creole and English, the bank will manage Fonkoze's core

business lines and lend out the sizable deposits Fonkoze has generated. When the bank has been established, Fonkoze will continue to exist as a foundation, governed by its general assembly. As a foundation, it will be the primary shareholder in the new bank, but outside investment from qualified investors will be encouraged. The purpose of the foundation will be to manage existing technical assistance programs, such as literacy training and business development, and "incubate" new bank branches in remote rural areas until they are profitable. Regarding names, in English, we sometimes refer to the institution that will remain after the transition as the Fonkoze Foundation, in order to distinguish it from Bank Fonkoze. In Creole, the foundation's name will remain Fonkoze.

#### **Fonkoze's entry into the remittance market**

In the years following the fall of Raoul Cedras' military dictatorship, the Rev. Joseph Philippe, a Catholic priest, meeting with other emerging civil society leaders, developed the idea for Fonkoze. These leaders realized that for a sustainable democracy to



evolve in Haiti, there had to be economic democracy as well as political democracy. Philippe began traveling around the country to rally the organizations that would become the founding members of Fonkoze to the vision of a bank on which the poor could rely. Through its development until today, he has remained Fonkoze's coordinator and board chair, as well as its primary motivational leader. Additionally, he developed the extremely popular literacy training game "Jwet Korelit La," now the basis of Fonkoze's training program in literacy and business skills. The game and programs have been adopted and applied by other organizations working in Haiti including the Mennonite Economic Development Associates and the U.S. Agency for International Development.

From the outset, Philippe understood the importance of harnessing dollars entering the Haitian economy for the development of the country and finding a safe, inexpensive and legal way for Haitians abroad and friends of Haiti to send dollars. So early in Fonkoze's history, we began traveling among the diverse Haitian communities in the Caribbean, the U.S. and Canada—to places like St. Maarten, Nassau,

*Haitians lined up to change remittances from dollars to gourdes or transact other bank business at Fonkoze's central office in Port-au-Prince.*

Curacao, Guadeloupe, Miami, Brooklyn, California's Bay Area, Chicago, Boston and Montreal. Although each of these Haitian communities is very different, they all have one thing in common: their members send money home. In every community, we found the same concerns: How can I be sure my money arrives where it's meant to go? How can I be sure the money won't be stolen in transit? How can I get all the money I've saved home, rather than paying so much to get it there?

In the United States, we also discovered a secondary market, the huge and growing number of churches, Catholic and Protestant, that develop relationships with parishes and churches in Haiti, and donate money to help build wells, schools and other projects. These churches are sending millions of dollars annually, and these dollars are channeled into development. Much more sophisticated consumers of financial services, the churches wouldn't dream of paying the



delivery services' fees to get money to Haiti. Nonetheless they clearly needed a service that would get the money there safely, inexpensively and quickly.

Fonkoze set out to find a way to help both markets at an affordable price. But first, we needed a bank in the United States that would work with us.

#### **Developing a partnership and a service**

Eventually, one of our investors in the United States introduced us to Louis Prézeau, president and CEO of City National Bank of New Jersey (CNB), and as far as we know, the only Haitian-born bank president in the United States. CNB, one of the top 10 African American-owned U.S. banks, has a long, proud history. Mr. Prézeau became interested in our project from a businessman's perspective—to get more Haitians into his bank. Still, it took time to develop a mutually beneficial relationship and the design for Ayiti Dirèk Dirèk, literally "Haiti Direct Direct," meaning "Direct to Haiti," Fonkoze's international deposit service.

We agreed to keep most of our reserves in CNB, making us a major client of the bank. CNB agreed to

drop all bank fees, including fees for the acceptance of wire transfers. It also agreed to e-mail us at the end of every day a listing of all deposits into the account during that day—including the name on the check, money order or wire transfer and the amount of the deposit. Fonkoze hired a customer service representative in the United States who works out of her home with a computer, an AOL account and an 800 number. A Haitian-American fluent in English, Creole and French, she explains the service to anyone who calls. Basically, if the recipient in Haiti has an account with Fonkoze, direct deposits to that account can be made for a flat fee of \$10, by sending the funds by check, money order or wire to our account at CNB. If the person in Haiti does not already have an account with us, a friend or family member in the U.S. can open an account for him or her. The accounts are free, they can be opened in dollars or in *gourdes*, and the minimum opening balance is 100 *gourdes*, about \$4.

Whenever the friend or family member outside Haiti is ready to make a deposit in the individual's account, he or she calls the 800 number or sends an e-mail to our customer service rep advising her of the

amount and the account number. She, in turn, tracks receipt of the deposit by CNB, alerts Fonkoze in Haiti when the deposit has arrived and sends a confirmation to the client in the U.S. that the funds have been received and deposited. Whether the deposit is \$100, \$1,000 or \$5,000, the fee for the service is the same: \$10. The person in Haiti is free to withdraw all or part of the funds at whichever of our 16 banks has his or her account. In most cases, the funds are available the same day or within 24 hours of receipt by CNB.

### **The advantages for Fonkoze**

The system developed with CNB for depositing funds into accounts in Haiti, has a number of advantages for Fonkoze: It is available to Haitians living anywhere in the United States or Canada, where the 800 number is toll-free, and to anyone else comfortable using e-mail or making wire transfers. Instead of requiring relationships with different banks in each community, we need only the relationship we have with CNB. Our representative never touches the money; it goes directly to the bank via wire or postal service. At the same time that we offer Haitians a safe and inexpensive way to get money home, we are helping both the Haitians abroad and in Haiti to use banking services. The vast majority of our clients have never before had a savings account, and how proud they are when they receive their first passbook! The people who use our service in Haiti become long-term clients of our bank and use our other services. We don't need an extensive infrastructure of retail points. Our only expenses, other than the customer service representative, are for advertising.

### **How has the service been received?**

Interestingly, the most avid advocates of our service have been the large number of parishes, churches and assistance organizations that need to get money to Haiti easily and securely but would never consider using a traditional money-transfer service. Once they learn of our existence, they become loyal customers and, sometimes, donors. They like that we are cheap; that our branches reach into the most remote sections of the country; that they don't have to worry about getting checks to Haiti via the regular mail service or whether the recipients can cash the checks;

*At the same time that we offer Haitians a safe and inexpensive way to get money home, we are helping both the Haitians abroad and in Haiti to use banking services.*

and that whenever they need to verify anything, they simply dial our representative or send an e-mail. If they want a message sent along with the funds, we will do that too.

The Haitian community abroad, however, is a tougher market to crack. When Haitians first hear of our service, they assume it's some kind of scam because it's so inexpensive. And when they call the 800 number to speak to our representative, they want to know where her "office" is. Because she doesn't have an office they can visit, they question whether she's legitimate. Often they delay their transfer until the absolute last minute, and they can't wait the few days it takes to send the money order to CNB. They may not know how to buy a money order or they may not read or write well enough to feel comfortable purchasing one. However, once a Haitian living in the U.S. has tried our service, he never turns back. I can honestly say that we have not lost a single Haitian customer. Very, very gradually we are winning the Haitians over—one client at a time.

### **Planning the educational campaign**

For a scrappy, young, undercapitalized institution like Fonkoze, finding the resources to advertise has been difficult. So far, our success has been based purely on word of mouth. This year we expected to develop an advertising campaign. But, as we continue to reflect, we realize that what we need is not a radio spot but a community education campaign. After all, what are we really attempting to do? We want to make Haitians educated consumers of financial services—as educated as the churches are. The problem is moving the Haitian community from "financial illiteracy" to "financial literacy."

Literacy campaigns are something Fonkoze knows a lot about. More than 60 percent of our clients in Haiti are illiterate; they have never learned to read, write or do simple calculations. We knew early on



that if our microcredit borrowers were going to be able to pay back their loans on time they were going to need training in literacy, computation and business skills. To succeed in our niche in Haiti, we had to offer grassroots education along with financial services. The challenge for Fonkoze today is combining meaningful education in Haitian communities in the U.S. with a sound and reasonably priced remittance service so that we can better living conditions in Haiti and tighten bonds with Haitians overseas. Our public education campaign will use two means to reach out to Haitians in the diaspora: public service announcements on Haitian radio stations and “financial literacy” seminars in the Haitian community.

We will use methods already tested throughout Latin America, as well as in our own literacy program in Haiti, to train Haitian “monitors” in teaching basic financial literacy in New York. The 10-hour seminars will focus on how to use U.S. banks, how to set up savings and checking accounts, home budgeting techniques, and the use of credit and debit cards. They will also share how other immigrant communities, such as the Mexicans, have developed “hometown

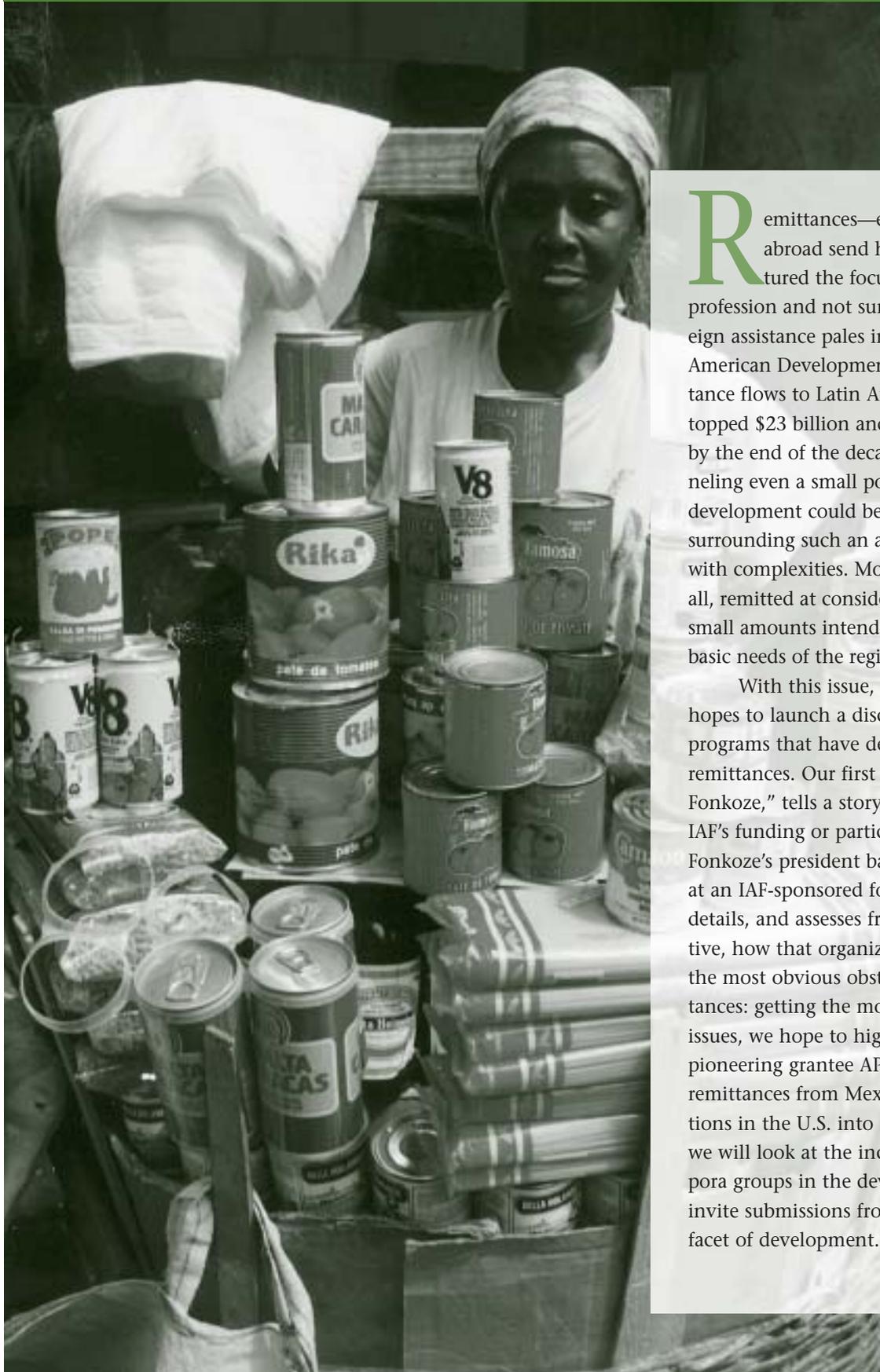
associations” to leverage their dollars for development purposes in their birth communities.

The National Endowment for Financial Education Studies has released confirmation that “as few as 10 hours of classroom instruction can effect significant knowledge and behavioral changes,” and these tend to last over time. With a proper understanding of Haitian language and culture, we believe such educational programs could achieve similar results, or better, in Haitian migrant communities.

For an organization committed to building a democratic economy in a country with a democracy as fragile and an economy as impoverished as Haiti’s, finding a way to improve remittance flows is essential. We have demonstrated that the cost of transferring remittances can be minimized. Now the challenge is to teach the Haitian diaspora that remittances are keeping the economy of their homeland afloat and that they can maximize the dollars they send back.

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*Ann Hastings began working as a volunteer in Haiti five years ago and is president of Fonkoze.*



Remittances—earnings that workers abroad send home—have recently captured the focus of the development profession and not surprisingly since official foreign assistance pales in comparison. The Inter-American Development Bank estimates remittance flows to Latin America in 2001 alone topped \$23 billion and could swell much higher by the end of the decade. The impact of channeling even a small portion of this resource into development could be significant. But the issues surrounding such an application are fraught with complexities. Most of the funds are, after all, remitted at considerable sacrifice in very small amounts intended to satisfy the most basic needs of the region's poorest families.

With this issue, *Grassroots Development* hopes to launch a discussion on innovative programs that have deepened the impact of remittances. Our first article, "Banking on Fonkoze," tells a story that does not involve IAF's funding or participation. Written by Fonkoze's president based on her presentation at an IAF-sponsored forum (see page 55), it details, and assesses from the author's perspective, how that organization is trying to address the most obvious obstacle to any use of remittances: getting the money home. In future issues, we hope to highlight the success of IAF's pioneering grantee APOYO, which has turned remittances from Mexican hometown associations in the U.S. into investment capital, and we will look at the incorporation of other diaspora groups in the development process. We invite submissions from other sources on this facet of development.

Emily Fintel, IAF intern

## First Steps toward Poverty Reduction in Bolivia

By Christine Krueger

When, in April 2000, the Bolivian government called for a National Dialogue on poverty reduction, it anticipated a demand for programs in education and health along with institutional reforms as the most likely result. During the months of consultation and negotiation, however, Bolivians sent a different message to their government and to international financial institutions: Recognize, value and promote the small-scale activities that offer a livelihood to the poor and that generate the overwhelming majority of jobs, goods and services that make up the Bolivian economy.

The National Dialogue was a series of conferences and meetings scheduled between February and August of 2000 at the municipal, departmental and national levels to discuss poverty issues and set priorities and guidelines for using funds to become available through Bolivia's renegotiated international debt. With grants from the Inter-American Foundation and the United Nations Development Program, the Inti Raymi Foundation, the philanthropic arm of the mining company that founded it, funded a preparatory process. Known as the "*Consulta*," it enabled representatives of micro-enterprises, artisan workshops, rural businesses and mining cooperatives to hold 50 meetings at which these grassroots activists honed their analyses and prepared proposals for a "productive Bolivia" to be introduced at all levels of the National Dialogue.

The Committee to Integrate Peasant Economic Organizations brought together 900 artisans, subsistence farmers and others representing 229 organizations exporting coffee, nuts, chocolate, llamas and alpacas; working in tourism; and producing fruit, vegetables, grains, tobacco and honey for domestic consumption. The National Federation of Mining Cooperatives assembled 325 representatives. Some 950 representatives from a myriad of artisan organizations converged into 50 nodes, while small-scale industry mobilized 650 representatives at various stages of the *Consulta*. With allies from civil society organizations,

they formed a broad-based liaison committee to coordinate their activities. Some 1,300 delegates from this vast array attended the *Consulta*'s national summits, one of them with then-President Hugo Banzer, and presented their proposals.

The *Consulta* brought these micro-entrepreneurs unprecedented recognition by government and larger businesses who, after having often lumped them with the "informal sector," now acknowledged them as constructive partners. As the National Dialogue unfolded, they were represented at meetings held in Bolivia's 316 municipalities and nine departments. Their advocates lobbied the Bolivian government as well as officials from the World Bank, International Monetary Fund and international donor organizations. At the Dialogue's conclusion, Bolivian and foreign observers were aware that small-scale producers accounted for eight out of every 10 of the country's jobs and that 83 percent of the population worked in mainly family enterprises of fewer than 10 employees. Though official figures attributed only 29 percent of national production to these businesses, the real figure was much higher as was the value to national well-being. Appropriately, one-quarter of the representatives elected to attend the National Dialogue's final phase were small-scale producers.

Visibility, however, was just half their battle. Convincing decision makers that they held the key to poverty reduction was the other. Without having read Hernando de Soto (whose latest book is reviewed on page 64), Bolivia's small-scale producers have identified as many as 174 steps required by unfriendly bureaucracies to do business legally and costs of \$2,000 which, on their poverty-line incomes, they can ill afford. Credit at market rates is largely unavailable to them, even though their repayment records are better than those of larger borrowers. Small-scale firms are systematically precluded from competing for government contracts. Their status as "civil organizations" rather than "businesses" prevents them from taking advantage of certain tax benefits and financial

credits. Larger enterprises buy up their products at different stages in the production chain and claim both the value added and the contribution to the national economy. Consequently, economists, planners and investors don't notice, for example, that cooperatives of small-scale miners produce 36 percent of Bolivia's all-important mining exports.

But much of this is slated to change. An important accomplishment has been the passage of legislation mandating the creation of local production councils in all municipalities and requiring municipal governments to invest in small-scale production 70 percent of the resources accruing from Bolivia's renegotiated debt as well as other national financing. Dozens of additional laws, norms and regulations are being adapted to the needs of small-scale operations, including those relevant to legal status, taxation and government procurement. The Poverty Reduction

Strategy, now memorialized in an official government document, and the National Dialogue Law call for the creation of a system of social control through which representatives of the local production councils will join nongovernmental representatives in monitoring and evaluating the efforts of the Bolivian government, business and civil society in reducing poverty.

Such advances are unprecedented in the hemisphere and implementation may take years. Meanwhile, the small-scale producers, now permanently allied in the liaison committee, are continuing their efforts to change the way Bolivia works and to make strides in reducing the poverty around them by improving their own productivity.

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*Christine Krueger is the IAF's representative for Bolivia and Peru.*

PHOTO BY: MITCHELL DENBERG. BACKGROUND PHOTO BY SEAN SPRAGUE



## Community Power in Ecuador

By Rubén Calle Mejía

All photos by Jorge Escobar

Ecuador is divided politically and geographically into provinces which are subdivided into cantons comprised of urban and rural parishes. The country's governing structure consists of the central government; provincial councils headed by the prefect; municipalities, or canton councils, headed by the mayor; and, in rural parishes, the parish boards. In 1996, these boards in no way resembled a governing authority; they were simply "brokers" (or applicants) for projects of neighborhood, parish and even personal interest. By law, each board functioned as an "organization auxiliary to the municipal government and administration and an intermediary between them and their constituents." Politically, however, they were totally dependent on the respective municipality and the mayor, who appointed them in accordance with the law pertaining to municipalities, and to whose will they were, consequently, often subordinate.

Historically, the national, provincial and cantonal governments' budgetary allocations to the rural parishes were inequitable and unfair. In the case of the canton of Cuenca, until recently municipal expenditures in the 21 rural parishes never totaled 10 percent of the municipal budget, more than 90 percent of which was allocated to urban sectors. Furthermore, budgetary inequities existed among the rural parishes, where funds were earmarked for political clientele (campaign promises being the quid pro quo for votes), small road repair "projects," municipal offices, athletic fields and so forth. The concept of development was not even recognized.

In Cuenca, this situation prompted the chairmen of the parish boards and directors of other rural community groups to join forces through the Asociación de Parroquias Rurales de Cuenca [Association of Rural Parishes of Cuenca] (APR), an organization founded for the purpose of increasing the larger government entities' attention and allocations to the parishes. In its initial phase, from late 1996 to 1997, the organization functioned as a forum for airing grievances.

During its second stage, from 1997 to 1999, APR began operating on a larger scale, presenting demands and complaints, not just regarding basic needs, to the municipal, provincial and national governments, and their institutions. Complaints were accompanied by proposals for remedial action. APR also insisted on a higher level of participation in decisions and on finding solutions to our own problems. By then, the cantonal government had agreed to nominate appointees to parish boards in open assemblies and to more independence for the boards. The APR, the governments and institutions entered into formal agreements to support small-scale programs or projects directed at improving conditions generally and at initiating workshops on cooperation and joint efforts, principally with the municipality. A local ordinance, originally drafted to strengthen the parish boards by defining their new role as the government of the parishes, would become the substance of a national law.

In this context, the Inter-American Foundation responded with support, mainly for activities directed at improving the quality of life. Although APR did not give up its watchdog efforts, the IAF's support marked a passage to a new stage in 1999 and 2000. While the project approved for IAF funding, called "Strengthening the APR and Parish Boards of Cuenca Canton," is still underway, its implementation has already contributed to a historic transformation, not



Cuenca residents planning community development projects.

just in Cuenca Canton, but nationwide. It has provided the impetus for the new Ecuadorian Constitution's recognition of the parish boards as autonomous local governments, elected by universal vote along with the other national, provincial and cantonal government offices. Additionally, the possibility of IAF support forced us as an organization to approve our bylaws and apply for formal recognition as a legally-constituted entity. This proved very important in terms of our subsequent ability to enter into agreements with not only the municipality but also provincial council, universities and institutions that contribute the local counterpart funds for our project.

In general terms, this IAF-supported project is also oriented toward strengthening democracy and governance, consolidating decentralization, and encouraging citizen participation in comprehensive development. Among major accomplishments of the grantee's lobbying efforts is the enactment of the Organic Law of Parish Boards and its implementing regulations establishing the parish boards as autonomous local governments. This national legislation specifically pertains to the development of the parishes, with the parish plan as the basic management tool.

Additionally, three new local ordinances devolve functions from the municipality to the parish boards. An ordinance on municipal support for Cuenca's rural parish boards governs their relationship with the municipality and establishes the boards as the only organization representing the parish for purposes of planning, decisions and implementation with respect to municipal budgetary allocations. A general ordinance transfers to Cuenca's parish boards the authority to manage municipal equipment already in the parishes. And an ordinance on community maintenance of roads, river channels and public spaces in rural Cuenca delegates to the parish boards control over infractions in this area and the authority to rule on them.

The practical application of these enactments has begun. Through a participatory municipal budget process, the parish boards analyze and make decisions on the construction work and development projects to be implemented with the municipality's allocation to each parish. An investment budget for the parishes

is today a permanent line item in the municipality's general budget. We hope to obtain a similar arrangement with the budget of the provincial council. A participatory parish planning process considers the needs, views and interests of the parish population as articulated by an active citizenry. Most of Cuenca's 21 parishes have begun drafting development plans, which involves overcoming the special interests and political favoritism that have obstructed the process in the past. A process for implementing the development strategies set forth in the parish plans allows the parish to immediately invest funds from its budget in productive projects directed at reducing the poverty of parish inhabitants.

Additionally, the provision of appropriate sites for the operation of parish boards, with basic furnishings and computer equipment, makes possible the integration, in the near future, of an inter-parish and external information and communication network. A systematic process for training board members and other parish leaders is directed at instilling an ability to govern characterized by efficient administrative and financial processes, by new ways of relating to the public, and by management toward the consolidation of the decentralization process. Finally, there has been recognition, socially and in the local communication media, of the important role of the parish boards in the exercise and validation of democratic practices that bring the different levels of government to institutions closer to the communities and to the people.

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*Rubén Calle Mejía is president of the APR.*



# Partnering for Sustainable Development in Latin America

By Beryl Levinger

*How do governments, the private sector, community-based groups and nongovernmental organizations partner to improve living conditions for this hemisphere's poorest citizens?*

## Overview

We live in a world where the pace of change is constantly accelerating. Trends emerge and cross-pollinate, leading to exponential rather than arithmetic algorithms for vanquishing the status quo. Today's world is swirled. Such phenomena as decentralization, globalization and the growing role of civil society blend to create a development context far different from anything seen before. This new context is staggering in terms of the challenges it presents, but extraordinarily rich in new opportunities for those dedicated to improving conditions for the poor and marginalized.

As the conditions under which development takes place have changed, so too have the institutional modalities embraced by development organizations. Traditional development actors, such as nongovernmental organizations and bilateral assistance agencies, are increasingly promoting partnership as a strategy to generate resources, promote sustainability, enhance community participation and strengthen civil society. Partnership is rapidly becoming a strategy of choice for NGOs wishing to respond effectively to the needs of communities in developing countries. Of particular appeal is the power of partnership to integrate community-based organizations, corporations and municipal governments into NGO-sponsored projects. Such partnering, advocates argue, stimulates flexibility and creativity while expanding access to private sector resources.

The Inter-American Foundation has been a pioneer in the support and promotion of intersectoral partnering (ISPs) in the development process. This article is based on research commissioned by the IAF and undertaken by the Education Development Center, an applied research and development organization based in Newton, Mass. It was designed to examine the experiences of 12 ISPs in Latin America

that received grant support from and were deemed successful by the IAF.<sup>1</sup> The partnerships studied included representation from NGOs, local government (typically municipal), private sector businesses, government agencies and community-based nonprofit organizations. We wanted to identify the challenges these effective ISPs faced as well as the benefits they generated in order to learn more about the conditions that lead to productive partnering. We also sought to gain insights into how such partnering might contribute to improving the lives of the marginalized and vulnerable.

## Function versus structure

We chose to break from the bulk of the existing literature on partnership and focus on partnership *functions* and *outcomes* rather than on structures. One of the earliest findings of our field research was that *most successful partnerships do not have formal hierarchical structures*, nor are they generally bound by legal contracts. Instead, these partnerships are built on strong trust that ensures accountability among participants. The openness of such arrangements enables individual partners to draw on the complementary skills present in the partnership so that each entity can make significant contributions to the common goal—even as circumstances change and new needs arise.

In interviews, many partners told us that written contracts would be evidence of a weak partnership, one in which partners did not trust each other and did not feel confident in the commitments made by others. However, where partners had responsibility for the management of development funds, funding

<sup>1</sup> Research was conducted on 12 partnerships in five countries: CASDEC, Fundación Inti Raymi, and Kürmi in Bolivia; EPCA and Fundación Solidaridad in the Dominican Republic; CODDICH and FUSAI in El Salvador; ACCEDDE and FECHAC in Mexico; and ASPADERUC, CIPDER and FUNDADES in Peru.

commitments and credit agreements were always confirmed in writing. In a few cases, we observed another element of structural formality, the presence of bilateral agreements among partners. In general, these were developed when one partner provided service or training for another. Although the partners interviewed did not identify structural elements as prerequisites to successful partnering, they did emphasize the importance of *common goals, trust and complementarity*.

### A new partnership model

The emphasis on partnership *functions* led us to a new conceptual framework for the study of partnership. The model we derived focuses attention on five key areas of possible partnership activity:

- *service delivery* or activities undertaken at the grassroots level, with the full participation of the poor, to sustainably improve the quality of life—economic, social, or personal;
- *human resource development*, often described as “empowerment,” which generally focuses on building the skills of disadvantaged people or on organizational capacity;

- *resource mobilization*, the process of securing the financial and technical support required to carry out such project-related functions as service delivery, training, research, advocacy, evaluation and dissemination of lessons learned;
- *research and innovation* that help local people and the development practitioners who work alongside them test or assess new ways of responding to priority needs and problems;
- *public information, education and advocacy*, which generally build upon research and field-based experience with service delivery.

To understand relative prevalence and underlying patterns associated with these areas, we created a technique called “partnership meta-mapping.” Each cell of the meta-map presented in Diagram 1 includes twelve sub-divisions, one for each of the 12 cases analyzed. The horizontal portion depicts the five areas of possible partnership activity, while the vertical portion displays partners by organizational type.

Several important patterns become readily apparent through a quick study of the meta-map.

**Diagram 1: Meta-Mapping Partnerships**

**Note:** NGO = nongovernmental organization; CBO = community-based organization  
Public = municipal government institutions

	Service Delivery			Human Resource Development			Resource Mobilization			Research and Innovation			Public Information and Advocacy		
NGO	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
CBO	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Public	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
Private	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■
	■	■	■	■	■	■	■	■	■	■	■	■	■	■	■

- Overall, partnership activities are concentrated in service delivery and resource mobilization.
- The areas with the least activity are research and innovation and public information and advocacy.
- Human resource development is largely the purview of NGOs.
- NGOs and the public sector participate in the broadest range of activities. In contrast, the private sector appears to be the most specialized actor with most of its efforts linked to resource mobilization and, to a lesser extent, service delivery.
- No area of activity is the exclusive purview of a single actor type. All actors engage, at least to a limited extent, in all areas of activity. There are, however, exceptions: there are no private sector or community-based organizations engaged in activities in support of research and innovation or public information and advocacy.

### Stages of partnership

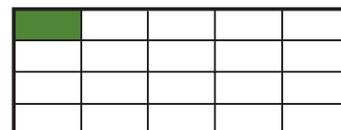
We also used mapping to analyze partnership styles and partnership evolution. Some partnerships in our sample began with a single NGO engaged in service delivery. Over time, the NGO went on to integrate new actors from other sectors (e.g., CBOs, local government, corporations) and, consequently, activities spread to new areas. Frequently, the pattern of evolution we observed began with complementarity (where growth takes place in a single area of activity through the addition of new actors) and moved to synergy (where growth occurs primarily through the addition of new areas of activity).

The different patterns of partnership development indicated that partnerships do not evolve through discrete, sequential phases. Instead, they develop via a fluid, iterative process of back and forth movement across four stages:

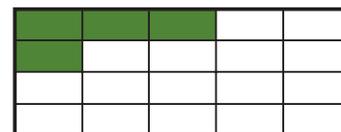
### Diagram 2: An Illustration of Partnership Evolution

**Note:** The horizontal axis depicts areas of activity—(1) service delivery; (2) human resource development; (3) resource mobilization; (4) research and innovation; (5) policy information and advocacy. The vertical axis depicts actors—(1) NGO; (2) CBO; (3) public sector; (4) private/corporate sector.

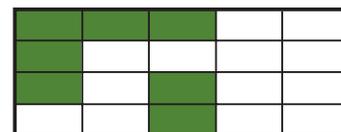
**Potential partnership:** EPCA started out as an informal street theatre group, comprised mostly of college students.



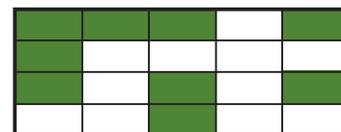
**Nascent partnership:** EPCA expanded its activities to provide training to community organizations in areas such as organizational development, project management and negotiating with government authorities.



**Complementary partnership:** EPCA convened government actors (office-holders and candidates), as well as community groups, to establish non-aggression pacts during elections and identify community priorities for the new administration. It also secured business sector participation through the Patronato Pro-desarrollo de Haina with the support of the Association of Business and Industry of Haina.



**Synergistic partnership:** EPCA is currently working to expand government and private sector participation. It would also like to expand its current community organization and education activities in public information, education and advocacy.



- **potential partnership**, in which actors are aware of each other but are not yet working closely together;
- **nascent partnership**, where actors are partnering but efficiency is not yet maximized;
- **complementary partnership**, allowing partners to derive benefits and increased impact through greater attention to a fixed and relatively limited set of domains;
- **synergistic partnership**, in which partners derive benefits and increased impact by addressing complex, systemic development problems through the addition of new activities.

Diagram 2, based on the work of Equipo de Educación Popular y Comunicación Alternativa [Popular Education and Alternative Communication Group], or EPCA, a nongovernmental organization in the Dominican Republic, illustrates this pattern of partnership evolution.

At any stage, a partnership may progress to any of the other stages depending upon local circumstances and partner experiences. Ideally, each new iteration of the partnership brings the actors closer to their common goal. One stage is not necessarily

better than another, except as it fulfills partner goals at a particular point in time. This multidirectional evolutionary pathway is illustrated in Diagram 3.

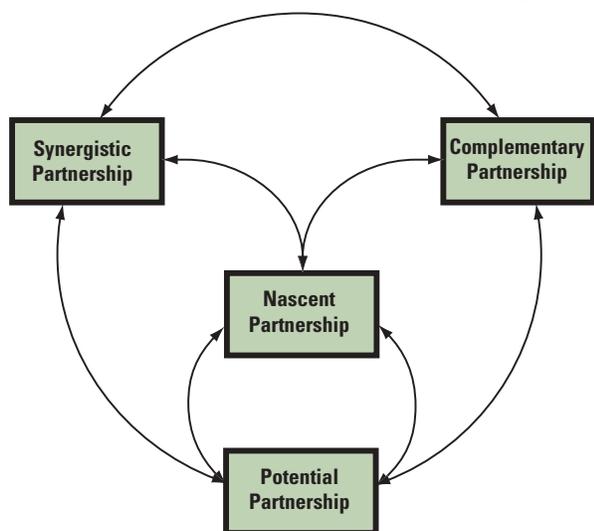
When a development effort is relatively straightforward, complementary partnership may be the optimal arrangement. In contrast, when the development problem is complex and partners have a broad range of skills, a synergistic partnership may well offer the best response.

### Maximizing partnership benefits

Both complementary and synergistic partnerships create value added through three mechanisms.

- **Continuity.** When partners extend their menu of services or activities, they also create new opportunities for the poor to continue using skills and competencies gained in earlier development efforts. Thus, for example, a community that has engaged in participatory planning and needs assessment around one set of issues, is able to deepen those capacities when it has opportunities to assess and plan in the context of new challenges.
- **Comprehensiveness.** Multiple activities of the partnership, whether in one or several areas, expand the likelihood that meaningful benefits will accrue to the marginalized and vulnerable. This is because development challenges are addressed simultaneously from several different angles. Thus, for example, an NGO offers microcredit loans to women who want to start or expand small businesses. It also partners with government agencies to provide training in accounting and marketing to help the loan recipients manage their activities. Another government agency offers training in the production of household products, which can either be sold or used to save money within the household. The comprehensiveness of the intervention package allows women to gain more substantial benefits (in this case, both increased income and decreased living expenses) than they would through a conventional microcredit program with its focus on income generation.

**Diagram 3:**  
**Alternative Partnership Evolution Pathways**



- **Coordination.** Awareness of, and collaboration with, other development actors in the community allows partners to achieve better coverage, develop more cost-effective programs, create economies of scale, and build social capital that can be applied to new development challenges. Thus, for example, two NGOs that work in the same region decide that each will deliver services in those communities where it has the greatest experience and most extensive contacts. Additionally, they engage in development planning with local government to ensure priority needs are met throughout the municipality. Such coordination results in expanded coverage, reduced costs per beneficiary and higher program quality.

Another major benefit associated with partnership is *risk mitigation*. All development projects face threats to success. Partnerships mitigate these risks because such arrangements lead to diversification of the actors' skill sets, contacts, spheres of influence and prior experience. Thus, actors become better able to respond to both internal (design) weaknesses and external (contextual) threats. When partners represent a wide range of skills and resources, a project can respond to problems in an agile way.

Contrary to much of the conventional wisdom on partnerships, we found that the benefits of partnering do not derive from a blending of organizational identities or the merging of organizational cultures. Indeed, the more unlike partners are, the greater the partnership's potential for significant risk mitigation. While diverse opinions, experiences and approaches can cause conflict, such diversity can also lead to innovation, creativity and new insights. Ideally, working together allows partners to understand and respect each other, but not to become each other, in their efforts directed at helping the poor escape the constraints of poverty and marginalization.

### Principles of productive partnering

These findings have implications for organizations that are or may become engaged in partnerships, as well as for the international community that supports them. Although the findings are not validated statistically, the rich qualitative data collected

suggest steps actors, conveners and donors can take to promote effective partnerships.

#### Principle 1: Keep your eye on the goal.

Benefits of partnership are maximized when partners come together around a unifying vision and common goal for the community. When partners are confident that they share the same goal, they can focus on fulfilling their responsibilities in the most efficient and effective way possible.

#### Principle 2: To thine own self be true.

Partnering allows organizations to share their own talents and specialize in what they do best. ISPs can allow organizations to take advantage of the unique traits of other sectors without compromising their own essence. Maintaining, to the extent manageable, differences in outlook and approaches serves to reduce internal and external threats to development efforts.

#### Principle 3: Cast a wide net.

Awareness of other actors in the environment builds a pool of potential partners, making it easier to draw on the necessary skills when a partnership opportunity comes along.

#### Principle 4: Use partnership to mitigate risk.

A great benefit of partnership is the ability to respond to a changing external environment.

#### Principle 5: Don't forget philanthropy!

Not all situations call for the same type of partnership—or for partnership at all. Costs are associated with achieving synergy because it requires a higher level of coordination, planning and adaptation. In some cases a working relationship other than partnership can build social capital for the potential partners while providing projects that benefit the community.

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*Beryl Levinger is affiliated with the Education Development Center in Newton, Massachusetts, where she heads the Center for Organizational Learning and Development, a team specialized in assisting international NGOs, foundations and development agencies with partnerships that respond to populations in need. Her research with Jean McLeod appears in *Together*, the book-length publication launching the IAF's Thematic Studies Series.*

## Mitigating Risk through Partnership: An Example

Centro de Acción Social para el Desarrollo Comunitario (Social Action Center for Community Development), or CASDEC, an NGO in the municipality of Tiraque in Bolivia's Koari area, helps indigenous communities improve their agricultural production through micro-irrigation systems and by introducing environmentally friendly agricultural techniques. CASDEC's relationships with different levels of government demonstrate the risk mitigation that can occur when diverse organizations partner in pursuit of a development goal.

Many organizations that engage in small-scale agricultural development run the risk of poor project design due to limited knowledge of local cultural norms that influence land use or due to inadequate technical expertise, in this case, in the engineering skills required for micro-irrigation. The partnership between CASDEC and the local government benefits from CASDEC's extensive knowledge of traditional water rights. As CASDEC's engineers explained, if cultural elements are not integrated into production projects, even the best-engineered system will not be accepted by the community.

Due to a changing legal context, Tiraque's government has begun to play a greater role in planning and coordinating local development projects. But even if the municipality had the resources to hire the best-trained engineers, any projects it might undertake would first require entering into the long and difficult process of building trust with the community. (It is notable that CASDEC's technical staff speaks the local Quechua dialect and lives in the community for weeks at a time.) Furthermore, if successful, the project would still only address one issue—water, in one community, while the municipality's other priorities would go unattended.

Partnering with CASDEC allows the municipality to support a well-designed project without investing years in developing the expertise on its own, an option that would not be feasible given the municipal government's resources and responsibilities. CASDEC gains legitimacy in its role as a promoter of local development through its partnership with the municipal government, and it also benefits from the municipality's coordination of broader development issues.



PHOTO: COURTESY JEAN MCLEOD

# A City and Its Scavengers: From Eviction to Trust

By Judith A. Morrison

All photos by Judith Morrison

*Éramos inimigos, agora somos parceiros.*

*We were enemies and now we are partners.*

Dona Geralda, president, Association of Paper and Recycled Material Scavengers

Early one August morning in 1988, the city of Belo Horizonte, Brazil, used bulldozers to eject 70 recyclers from the municipal property on which they had been squatting for a year. One of Brazil's first urban planning successes, Belo Horizonte, with a population of 2 million, has always considered itself modern, partly because its quality of life is high. Eviction was the last resort of a city hall tired of dealing with homelessness and the garbage picking that went with it. But just four years later, Belo Horizonte's mayor ratified a city contract with these same recyclers. Distrust had given way to cooperation, enabling both parties to forge strong partnerships with diverse actors from the local community, the private sector and international institutions. What had happened?

## *Os catadores, the scavengers*

In the late 1980s, recycling workers in Brazil considered themselves as disposable and worthless as the garbage they collected. Many abused alcohol and drugs in order to tolerate the poverty and violence on the harsh streets where they lived and worked. According to Belo Horizonte's sanitation authorities, the recyclers, called *malucos*, or crazies, made the city look like a dump by sorting in open public areas and letting the separated garbage spill onto sidewalks and roadways. On top of that, to protect their materials, the workers lived outdoors, and better-off residents were offended by the public spectacle they offered as they bathed, slept or changed clothes in plain view of passers-by. "Folks treated us the same way that treated the trash," explained Maria das Graças Marçal, known as Dona Geralda, who had raised nine children by scavenging with them for paper.

When, in 1988, the city reclaimed the small parcel of municipal land in Contorno, a neighborhood between the commuter railroad tracks and the Arrudas river, it destroyed the property, homes and livelihood of from 50,000 to 70,000 people. Twelve of them, including Dona Geralda, became leaders of a grassroots association eager to mobilize scavengers, but the foundation for this work was shaky. Contorno represented an *invasão*, literally a land invasion, meaning a community of squatters among whom thieves and drug addicts could hide from the police or perpetrate violence and crime.

But in 1987 two Benedictine nuns and various lay people launched a Catholic street ministry, Pastoral da Rua, aimed at the garbage recyclers in Cortorno. Their work was part of a larger mission undertaken in Brazilian cities and it borrowed from successful programs for prostitutes. From that model several interesting projects emerged, including one conducted by former IAF grantee Cooperativa de Catadores de Papel Autônomos (COOPERMARE), a recycling cooperative founded in 1989 and located under a bridge on the outskirts of Jardims, an upscale São Paulo neighborhood.

In Belo Horizonte as elsewhere, the street ministry's personnel lived near its potential congregation to better understand the people and the challenge of their occupation. Initial conversations, directed at developing trust, were very informal with outreach conducted in the streets of *favelas*, slum communities. Early discussions explored recycling as an occupation through a series of questions: Is scavenging truly work? How many hours do you work? How long do you travel to get to work? Do you have the right to a break? Do you ever stop work to take a break? Do you



*ASMARE workers sort and bag trash.*

have days off? How much weight do you carry? How do you sell your materials? To whom? At what price? Is the price you receive consistent? According to Maria Cristina Bove of the ministry, the theory underlying this method is simple: Workers are capable of influencing their community. The meetings legitimized the garbage collectors' work and through participation they learned to reach consensus and developed mutual respect.

### **ASMARE**

Some months after the Contorno eviction, the homeless leaders and the street ministry mobilized on behalf of their recycler constituents and drafted an open letter to the municipality. Their timing was perfect. A political campaign was underway, and all can-

didates were aware of the city's treatment of the street community and the importance of its vote. The letter led to the formation, in 1990, of Associação dos Catadores de Papel, Papelão e Material Reaproveitável, [the Association of Paper, Cardboard, and Recycled Material Scavengers] (ASMARE) a coalition of 12 individuals whose president was Dona Geralda, and to ASMARE's contract with the city. Membership has since grown to 210 individuals who, under the contract, collect and process more than 500 tons of trash per month from 105 drop-off sites in 23 universities, 12 religious communities and 22 companies. ASMARE pays them at least twice the Brazilian minimum wage. It also works to improve their labor conditions and health services, integrates formerly homeless individuals into society, and stimulates recycling efforts

*After a long process of such consciousness-raising and negotiations, mutual trust developed along with recognition of a mutual interest in improving the garbage situation.*

through environmental education. The organization is administered democratically and every two years members elect representatives to seven standing committees (on education, culture and recreation, finance, publishing and dissemination, infrastructure, health, and environment). Members recognize the importance of their labor as professional material collectors, not scavengers, and minimize the use of the term *catador* in association discussions.

### The city

As the recyclers were organizing, Belo Horizonte's municipal government was undergoing a parallel transformation. Reformers were part of the Frente Popular, a multi-party, liberal political movement to revitalize Belo Horizonte. Councilman Patrus Ananias and Heliana Kátia Campos, popularly known as Kátia, the new appointee heading the technocratic Sanitation Department [Superintendência de Limpeza Urbana da Cidade] (SLU), worked together for change. An environmentalist and sociologist, Campos knew the challenges of her position when she accepted it. The city had hired her consulting firm to explore the external effects of garbage on the region, and she had worked to sensitize the department's administrative and professional staff by bringing them closer to the streets. Veterans of decades in the bureaucracy, used to dealing with garbage as a purely technical problem, many viewed scavengers as responsible for dirt, chaos and disorder in the city.

"Sanitation department office workers often told me that the garbage recyclers *steal* paper and trash and make the city dirty," Campos recalled. "How could they steal the trash? If this was the case, then maybe we should expand the focus of their work because they were taking better care of the sanitation problem than we are." Campos suggested six staffers visit ASMARE, in 1990 still a fledgling cooperative with no meeting space. After an encounter with

ASMARE members and church workers on the streets of Belo Horizonte, the sanitation managers returned to the department dazed. The rawness of the space had served as an equalizer, forcing the city workers to congregate in the street, something they despised. One called the experience "shock therapy."

The recyclers, feeling they themselves deserved better, then made an effort to move the sessions indoors, a gesture not fully appreciated by the municipal government in the early negotiations. At a meeting in a donated space, the municipal workers commented on the lack of chairs and adequate infrastructure as well as the recyclers' personal informality. Campos countered such criticism by asking her workers, "What are you going to do about it?"

Soon meetings escalated to monthly, with a portion of each devoted to interactive projects. One on homelessness revealed a major upper-class annoyance with the recyclers' changing clothes in public. The focus on how to do this more discretely made city workers more sensitive to the challenges of street life. After a long process of such consciousness-raising and negotiations, mutual trust developed along with recognition of a mutual interest in improving the garbage situation. The camaraderie led to a regular segment on a public access television show.

### The partnership

In 1990, sorted garbage collection and pick-up of recyclables became the substance of a federal law encouraging these practices, thereby formalizing a role for recyclers. Two years later, a group led by the municipal Sanitation Department and Social Development Departments embarked on a research project to develop programs for street people. Interestingly, other related municipal offices joined the effort by providing social services and youth support. The parallel workers in these offices, familiar with low-income communities, strengthened the relationship between the SLU and ASMARE. Often the social development staffers were very confident of ASMARE's ability to reach anticipated goals, and they shared their confidence with the SLU staff. Many had participated in the first official investigation of the conditions of the city's street people in 1989 and felt a strong sense of involvement in the project. Pride in ASMARE's accomplishments was contagious. In fact,



A Belo Horizonte youth refinishes a seat cover for a reclaimed chair, one of many projects ASMARE supports.

because there was such competition among branches eager to take credit for ASMARE's success, the entire municipal government had to be listed as a supporter.

The contract signed by SLU, Pastoral da Rua and ASMARE took effect in December 1992. It has enabled all of the parties to contribute in defined areas of comparative advantage to the functioning of this program and the partnership. The municipality focuses on the technical aspects of garbage collection and sorting while promoting ordinances and research to improve conditions for street people. Pastoral da Rua provides support (*acompanhamento*) to all aspects of the recyclers' work.

ASMARE is responsible for maintaining the sorting facilities and assuring the quality of all elements of the program. An advantage of working with a technocratic agency like SLU is its strong culture of documenting and quantifying production. This has led to

the establishment of monthly goals and benchmarks. In retrospect, Campos still reflects on the economic relationship between ASMARE and SLU. What are the true costs and savings in this recycling partnership? A private sector contract to manage sanitation can carry a hidden cost if significant unemployment or underemployment results among those not included as service providers. The municipality's interest in the proliferation and competitive edge of low-income associations to meet the demand for recycling services at a reasonable price must be balanced with the financial burden of addressing social exclusion and homelessness.

The IAF's grant support to ASMARE began in 1997 and terminates this year. With the funds, ASMARE purchased equipment and renovated warehouse space for sorting, which has allowed it to hire more workers and pay better wages. The award also supported an

*ASMARE has replicated its model by supporting the creation of 29 recycling associations in the state of Minas Gerais and organizing the first National Congress of Paper and Recycled Material Scavengers, attended by representatives of NGOs and the public and private sectors.*

institutional video and seminars, increasing the impact of ASMARE's environmental education. Now ASMARE is broadening those efforts with the goal of increasing the volume of recyclable material collected from private homes and corporations.

### Next Steps

ASMARE has developed the capacity to define ways nontraditional partners can be involved in its work as one-time or short-term alliances. In 1988, for example, three local artists and a musician coordinated the costumes and music for the first Garbage Scavenger and Street People Carnival, involving 180 garbage recyclers. The event was a means for recognizing the *catadores'* environmental work as well as their civic voice and participation in the local culture. ASMARE's carnival, since held with the assistance of a different group of artists and businesses every year, has added significantly to tourism, prompting support from the visitor industry.

In 1999, ASMARE joined with UNICENTRO Newton Paiva, a private business university, to develop the ECOAR exhibit displaying the diversity of recycled goods, including house wares and furniture from ASMARE's youth carpenters. Creative uses for recycled materials were the theme of a model for a home in a wealthy area of the city. During the month-long exhibit, local artists and presenters performed in honor of ASMARE and recycling. UNICENTRO continues its involvement through an intensive business internship program matching ASMARE members with ambitious students fascinated by ASMARE as a successful business model. Additionally, ASMARE has developed strong recycling partnerships with Belgo Mineira, Banco Itaú, McDonald's, Toshiba and C&A, a department store.

ASMARE has replicated its model by supporting the creation of 29 recycling associations in the state of Minas Gerais and organizing the first National Congress of Paper and Recycled Material Scavengers, attended by representatives of NGOs and the public and private sectors. In January, the Recycling Bar opened as an upscale luncheonette promoting the creative use of recycled materials in interior design, marketing and cultural promotion. It also offers young, upwardly mobile recyclers the chance to acquire practical experience in the restaurant, design and hospitality industry.

### Applause

ASMARE has received awards from the United Nations' Project Life, the Fundação Gertulio Vargas and the Ford Foundation's Premio de Gestão Publica. When the most popular women's magazine in Latin America decorated ASMARE's partnership with its Premio *Claudia*, Brazil's reigning celebrity, Oscar-nominated actress Fernanda Montenegro of *Central Station* fame, did the honors. ASMARE has also hosted Danielle Mitterand, former first lady of France. This kind of attention acknowledges the significance of integrating the poorest of the poor into Belo Horizonte's technical operations, an accomplishment all the more astounding when considered in the context of the historic tensions, to say nothing of the violence, between the city and the *catadores*. In a very short time, the transformation from adversaries to partners has proved a win-win situation for both municipal administrators and garbage recyclers.

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*Judith Morrison is IAF's representative for Brazil and Colombia.*

# At the IAF Development Notes

## Exploring Remittances

In March 2001, the IAF in cooperation with the World Bank and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC) held the first Washington conference on the development potential of remittances. “Approaches to Increasing the Productive Value of Remittances,” an outgrowth of the three institutions’ recent focus, brought World Bank and ECLAC researchers together with governmental officials, NGO representatives and leaders of hometown associations working on IAF-funded grants in Mexico and Haiti. In his opening remarks, conference organizer

PHOTO: PATRICK BRESLIN



*IAF representative Carlo Dade opening the first Washington conference on the use of remittances in development.*

Carlo Dade, IAF representative for the Dominican Republic and Haiti, described the dimensions of the remittance flow and the need to understand the phenomenon. Keynote speaker Raul Rodríguez of the North American Development Bank echoed this thought with a list of caveats.

A background session featuring the findings of World Bank and ECLAC research projects was followed by two thematic sessions. One focused on working with hometown associations and cited the specific example of IAF Mexican grantee APOYO. The second explored alternative transfer systems. (See the article on Fonkoze in this issue.)

Two key messages emerged from this look at the initial experiences with remittances and remittance-sending communities. The first, which Dade signaled early in the session, cautioned the development community against fixating on the volume of remittance flows. Remittances represent money earned by poor people and sent to poorer people for basic needs, he said, adding, “Sensitivity to the complexities is an absolute prerequisite to leveraging remittances for development.”

The second message, advanced by Rodríguez, is that remittance-sending and receiving communities must be at the forefront of any discussions on working with this resource. “Beware of trying to overrule the priorities and common sense of hometown associations,” he urged during his keynote address.

“Remittances are perhaps the oldest and most durable form of foreign assistance, but they represent uncharted territory for development professionals,” Dade insisted months after the conference. “New skills will be required and, above all, new approaches centered on openness and participation, something with which the IAF has over 30 years of experience.”

See page 74 for information on the conference publication.

### IAF at LASA

Kevin Healy, IAF representative for Costa Rica, Honduras and Panama, and Judith Morrison, representative for Brazil and Colombia, presented papers at the Latin American Studies Association's XXIII Congress held in Washington, D.C., Sept. 6-8, 2001.

At the session on indigenous politics and donor policies in the Andes, Healy examined the IAF's long involvement with indigenous peoples, which he highlighted with four success stories from his new book *Llamas, Weavings and Organic Chocolate*, reviewed on page 66. Morrison, was a discussant on the panel on land rights of African descendants and chaired a session on economic development in Afro-Latin American communities. At the latter, she also presented a paper on successful IAF-funded grassroots projects initiated by Afro-Latins. IAF grantee Criola, an NGO serving Afro-Brazilian women artisans in Rio de Janeiro, was represented at the session by its director, Dacia Costa. See page 74 for information on *Economic Development in Latin American Communities of African Descent*, which compiles the panel's presentations.

Healy and Morrison are widely recognized in the development profession and academia as experts in issues affecting, respectively, indigenous peoples and communities of African descent in this hemisphere. Since the LASA conference, Healy has spoken at

universities and museum and social philanthropy network events across the United States, and to civil society working groups in Washington, D.C. At the invitation of anthropologist Helen Safa, Morrison will give a follow-up presentation at LASA's XXIV Congress in Houston.



PHOTO: PATRICK BRESLIN

PHOTO: PATRICK BRESLIN



IAF's LASA panelists Kevin Healy, above, and Judith Morrison, on the far left in the photo below, spoke on the Inter-American Foundation's work with indigenous and Afro-Latin communities.

## Race, Ethnicity and Development

As part of the Inter-American Development Bank's High Level Dialogue on Race, Ethnicity and Inclusion in Latin America and the Caribbean, held June 18 and 19, 2001, the Inter-American Foundation, along with the World Bank, the Pan American Health Organization and the Inter-American Dialogue, sponsored a workshop for development and international affairs professionals from throughout the hemisphere.

But first, they heard from an array of officials and banking authorities focused on the need to assure the participation of indigenous peoples and citizens of African descent in the economic and political life of the Americas. Enrique Iglesias, IDB president opened the two-day event, followed by the two keynote speakers, United Nations High Commissioner of Human Rights Mary Robinson and Brazil's Minister of Social Security Roberto Brant. The hemisphere's indigenous and African descent population was well represented both in the audience and on blue ribbon panels of experts that included Benedita da Silva, Rio de Janeiro's first Afro-Brazilian vice governor, and since then, governor; Minister of Culture Otilia Lux de Cotí, the first indigenous woman to serve in the Guatemalan cabinet; and Victor Hugo Cardenas, Bolivia's first vice president of indigenous descent.

"Society is going to change, little by little," Lux de Coti told *Grassroots Development* the second day of the conference, "but it's going to change. Nonetheless, we need to keep fighting so that indigenous people, and others as well, are visible and so that we are considered in program design and policies. There's still a lot of work ahead, but now young people do have many more opportunities because we have opened the way." Speaking on the opening panel the day before, she had detailed the hardships she had faced in school and the scandalized reaction when she, a Mayan

woman, was appointed to her current position. "I'm going to respond with my actions," she declared. "I'm going to be inclusive as a minister and preside over a ministry for the diverse cultures of Guatemala."

The two-day dialogue closed with IAF's panel on grassroots development in African descent communities, chaired by Linda Borst, IAF's vice present for programs. Panelist Judith Morrison of the IAF spoke of the IAF's support for self-help initiatives, in the form of some 750 grants directed at improving conditions in these communities. Morrison later participated on the IDB's panel, "Research Advances on Social Inclusion," at the nongovernmental organizations' forum of the U.N. World Conference against Racism, Discrimination, Xenophobia and Related Intolerance, held in Durban, South Africa, in August and September 2001. She spoke on the importance of community development in promoting social inclusion. Later, at the official portion of the U.N. conference, she also represented the IAF at the IDB's High Level Dialogue of Funders, a very small gathering of representatives from European and North American banks and other assistance agencies.

*IAF representative Kevin Healy flanked by pioneering indigenous political figures Victor Hugo Cardenas and Otilia Lux de Coti.*

PHOTO: PAULA DURBIN



# At the IAF Grantees in the News

## Rep. Hilda Solis Visits Grantees

In testimony submitted May 9 to the Foreign Operations Subcommittee of the U.S. House of Representative's Appropriations Committee, Rep. Hilda Solis (Calif.) urged an increase in the IAF's funding for 2003, a request supported by her recent first-hand experience with IAF grantees and their beneficiaries. The congresswoman and her aide, Nidia Bautista, had traveled in mid-March to projects in El Salvador and Nicaragua.

Included on her itinerary were REDES' IAF-funded project, a "mobile market" of kiosks that rotate through neighborhoods of Mejicanos, San Salvador, El Salvador, and a meeting with administrators of IAF grantee AVODEC's rural preventative health program

in Jinotega, Nicaragua. "I was very glad to see that the resources are directed to helping those who need it the most," Solis said of her visits. "That is why it is important to support the continuation of funding for these kinds of programs which invest so that communities become self-sufficient. In light of the many devastations that Central American countries have faced in the past, and the financial difficulties they now face, such programs are instrumental in revitalizing economies and in building a sense of community and a sense of family."

In preparation for her testimony, Solis had drafted a request to the subcommittee for additional IAF funding in its Foreign Operations Appropriations bill, which she circulated among her colleagues. Her letter of support was co-signed by 24 other House members.

*Rep. Hilda Solis visiting administrators of AVODEC's health program in Nicaragua, below, and, right, a REDES kiosk in San Salvador, El Salvador.*



BOTH PHOTOS: PATRICK BRESLIN



## DHL and IAF in a Sweet Deal

IAF grantee Fondation La Ruche has received \$10,000 from DHL International Haiti, S.A, the local office of the express delivery services giant. The commitment, matched by IAF, will fund a reforestation and apiculture project involving 50 Haitian women from La Montagne, a commune of the village of Jacmel, located 60 miles from Port-au-Prince, Haiti's capital. Save A Country, a Haiti-based philanthropic organization, is the conduit between DHL and Fondation La Ruche, which in 1998 received \$255,940 from the Inter-American Foundation to be used toward social investment partnerships such as this one involving families in southern Haiti.

Since receiving DHL'S initial disbursement, project participants, most selected from among the members of Famn Vayan, or Brave Women, a local grassroots organization, have kept to a strict schedule, setting up hives on a portion of their land and publishing a training manual. In addition to beekeeping skills, they will learn to market the honey they produce and will receive credit counseling, according to Jessie Nicolas, manager of DHL-Haiti and Save A Country's founder. The 7,000 fruit trees they plant will bolster this new source of income from honey production and help the surrounding environment.

"DHL is pleased to support this project and considers the benefits to be in line with DHL'S commitment to social investment in Haiti," said Nicolas. "I hope DHL 's commitment will have a positive and durable impact. Sustainable job and wealth creation means a better economy for the country and more business for the company."

BOTH PHOTOS BY: REBECCA JANES



Famn Vayan beekeeper with honeycomb.



Beekeepers in protective gear.

## 9–11 at the IAF

Like all government employees, IAF's staff were released on September 11, 2001, as soon as reports of the horrific attacks on the World Trade Center and the Pentagon, just a few metro stops away, reached the Arlington headquarters. Upon opening their e-mail the next day, many were moved by the concern, sympathy and solidarity expressed by individuals and organizations from throughout the hemisphere. It is impossible to publish all of these messages here, but lines excerpted from some offer an indication of the depth and breadth of these friendships.

### Argentina

Still reeling from the events of the last few days, I am making contact to send my greetings and find out if you are all right. I send you *un abrazo*.

*Jorge Carpio*

Please receive an affectionate greeting and our expressions of solidarity. These horrible events have truly moved us and we can only offer our prayer that world terrorism be eradicated and we may live in peace. In the name of the Fundación Eugenio Mendoza we extend these expressions of friendship to the entire Inter-American Foundation team.

*Morella Ramirez*

I want to express my sorrow for the horrible attack and transmit our solidarity. Here in Buenos Aires we have experienced similar situations—with fewer deaths, but does it make sense to count the number of lives lost?

*Adriana Rofman*

*National University of General Sarmiento*

### Brazil

It is with sorrow that we watch the images on television. I pray all is well with you and your loved ones, as well as with the rest of the citizens of your country.

*Dacia Costa*

*We dream of a world in which  
differences are handled peacefully.*

Brazil officially denounces any and every terrorist act. We at *CEPO-Coperservicios* would like to express our sincere sympathy for the American people and especially for the affected families.

Hope everyone is safe. We are praying for peace here in Brazil. In Afro-Brazilian culture the warrior god Ogum reigns this year. To prevent war it is important for everyone to believe and practice the act of forgiveness. I hope peaceful hearts and cool heads may also bear this in mind.

*Bolsa Amazonia*

*Afro-Sergipian Society for Study and Citizenship (SACI)* and the world watched with consternation the attack suffered by the United States and the American people. In keeping with the official position of the Brazilian government, we repudiate this violent, cruel, intolerant and traumatic attack. SACI also joins in solidarity and fraternity with all who desire complete, boundless freedom and democracy for all nations. We dream of a world in which differences are handled peacefully.

In light of the events of this past week, we would like to express our sympathy and the hope that peaceful conditions can be reestablished shortly in the U.S. and the world.

*CIDADE (Urban Studies and Advice Center)*

We come forward to express our sympathy, sorrow and repudiation for the violent act of which United States was the victim. Nothing justifies actions that hurt all of humanity.

*From Scratches to Scribbles Project*

*State Council on the Feminine Condition*

As much as we ask why all this happened, why human beings allow this situation, we do not arrive at the answers that we want. Our deepest condolences.

*Denes Project*

I would like to express my sympathy to the American people. Hopefully, the world will find its way of justice and peace.

*Rios Vivos Coalition*

## Belize

Love is never-ending and the events of the recent days show the value of reaching out.

*Paul Jones*

## Colombia

I just heard about the situation five minutes ago. There are no words; right now one is filled with fear and sorrow.

*María Teresa*

We express our solidarity with all Americans. This was an attack against all mankind, and we are all overwhelmed by pain. With God's grace, may we overcome what has happened and work to consolidate a world in peace without terrorism.

*Manuel Guillermo González, Neyla Rubio  
Evaluar Consultar and Evaluar Auditores*

The *Corporación Sisma Mujer* expresses its solidarity. It also condemns any action that attempts to claim rights through terrorist violence. Now more than ever we dedicate ourselves to education, to solidarity, and to fully effective human rights as basic for building a just, democratic and tolerant society.

We in Cali deeply regret the events that occurred yesterday, and we send you our very best wishes, full of courage, human warmth and good will. *CEDECUR* and the *Red Fuerza Viva de Mujeres* staff are with you. May you find the strength to carry on.

I am dismayed at the events, the loss of human life and the resources that will be required to compensate for the damage. I am with you in these times of sorrow. My heart weeps in the face of this extraordinary tragedy.

*Telesforo Gonzalez Mercado*

We are one with you and your fellow citizens in these times of so much sorrow and pain. With our deepest esteem and in full solidarity, the staff of *CII-VIVIENDAS* salutes you.

## Dominican Republic

Those of us at *CEZOPAS* feel our hearts are one with yours in this pain we all suffer. We pray that the American people, with the help of God and all their Latin American brothers, can rise with a strong spirit to restore what has been lost, but especially to hold onto their enterprising spirit and strength of will.

The *IDEC* family joins in your pain in the aftermath of the barbaric act committed against our brothers in the United States. Terror will not triumph as long as there are men and women who are prepared to lead the way out of the darkness, because we will always hold the torch of liberty high.

## Ecuador

With profound indignation, we watched the horrible attacks in your country. In these tragic times, when many American homes are plunged into mourning, we want to express our solidarity and strong condemnation of these acts. As always, we reiterate our special esteem and consideration. Cordial regards from the *IPDA* team.

In the wake of the savage attacks against your country, we in the *FEPP's Cuenca office* express our solidarity with the people of the United States and with you in particular. Reprehensible acts such as these only serve to strengthen our belief in the crucial values of Christian humanism, peace and development.

The *CEDERENA* team and the *EC-374 project team* want to send a message of solidarity to the American people, repudiating all that occurred on September 11, since it represents an attack on world peace and order.

## At the IAF Grantees in the News

### Guatemala

We want to express our solidarity with the American people, our hope that this shameful situation will not continue, and our sincerest wishes that, in these difficult times, reason will always prevail.

*Rosamaría Cruz*

The staff of the *Fundación Para El Desarrollo Educativo Social y Económico—FUNDADESE*—and the people of Chichicastenango express to you and your countrymen our profound solidarity and consternation over the events that have plunged thousands of innocent American families into mourning. We pray to the Creator to show us new paths and demonstrate that the power of evil men cannot compare to the power of God.

I am very glad that the IAF staff were not personally injured, although the suffering of the American people is deplorable. Now we must be very alert. There are groups that want to make enemies of and go to war against any terrorist suspect. It will be a great challenge to the American government and people to avoid falling into that trap, which will not help to clarify matters, but muddy them and lead to world war. We pray that calm, prudence and objectivity will be the principles that guide your government's response.

*Erick Granados.*

### Haiti

Allow me to wish all of you courage and to ask you to accept my most respectful sentiments.

*President, Boy Scouts of Haiti*

### Honduras

The *Centro San Juan Bosco*, with headquarters in Tela, Honduras, and the *Organización de Pobladores Urbanos de Tela*, comprised of the parents of working children, whom we have nurtured and to whom we have given strength, send you a message of solidarity in light of the violent attack on the American people. We pray that calm and peace will soon return.

We hope this entire conflict will be resolved for the good of all mankind in the shortest possible time, although we know in our hearts that it may be a long-term situation.

*FUNBANHCAFE*

### Mexico

All the members of *Grupo K'nán Choch* wish to express their concern about today's events. Please accept our expressions of solidarity.

We at *Equipo Pueblo* and *CDP-Z* send you a message of solidarity and concern. It is terrible that violence keeps escalating in the world, and especially that so many innocent people have to suffer the consequences. We hope all of us who work for non-violence and to build a world where justice and brotherhood reign will one day succeed in our efforts to unite all people.

What happened in NYC is a nightmare. It is incredible that there are people capable of committing crimes of such magnitude. I cannot believe it, it just does not fit in my head. I hope this does not result in an escalation of violence. I hope the guilty are punished, of course, but I hope that this appalling, totally unjustified action teaches us that violence serves no purpose. There is nothing to be gained from an equal tragedy in another country.

*Carmen Pérez*

### Nicaragua

We are all thinking about you. Truly, the images we see on TV are horrific. I have only seen things like that in the movies. Know that you have our solidarity, moral support and encouragement, and that we are ready to help.

*Delia Sevilla*

We woke up in horror at the tragedy in New York and Washington, the result of terrorist actions. Our work team and I send you our sincere condolences. May God give you fortitude, especially the families of the victims, and grant your leaders the strength to recover and carry on.

*REMISA*

We are deeply moved by the tragedy that has befallen the American people. The personnel and management team of the *Fundación Orlando Robleto Gallo* wish to express their sorrow and solidarity with the victims' families. In these times of grief, we pray for the victims of this abominable act.

## Peru

Our Association wishes to express its solidarity and support in these tragic times your country is living through. We also take this opportunity to repudiate and condemn terrorist and cowardly acts such as those perpetrated in New York and Washington. But we are certain the American people will carry on, and what has happened will serve only to strengthen the moral and ethical principles through which the great nation to the north has grown and prospered.

*UDECO*

We are united with you in your pain, in condemnation, and, above all, in the struggle to change this world and make it a more humane place, leaving these atrocities far behind us.

*IDRS*

We want to express our solidarity with you and with the American people. We hope no IAF staff member has suffered the loss of any family member, and that you will soon recover from this unexpected situation.

*Bosques del Norte, S.A.*

We are happy to hear that you and all the IAF personnel are all right. We hope for the speedy recovery of your country, which, in the end, is for the good of all.

*ALLPA S.A.C.*

We were greatly surprised and very sorry to hear about the terrible occurrences in New York and other parts of the U.S.A. I also want to express my solidarity with you and ask God to protect and keep you from such painful situations. We hope that acts like those will never be repeated and that peace will return.

*Guillermo Rivero*

The events in New York and Washington are truly barbaric. The most terrible thing is the loss of so many innocent lives. Everyone in our organization is in solidarity with you and with your country in these difficult times. May God guide the leaders so the consequences do not get out of control.

*José Crespo*

Greetings from the *Centro para el Desarrollo Urbano y Rural (CEPDUR)*. First, I want to express my solidarity with you and all the American people in the wake of the events. We will always condemn any terrorist act, regardless of where it occurs. Fanatics choose these means because they want to undermine the democratic system. We have been living this situation for 12 years, and we know how difficult it has been. This disaster has cost us so much!

## Venezuela

We are shocked by the tragedy in your country. We mourn for the innocent people affected by the senseless violence and we grieve for their families. We want to express our solidarity with you and all who were affected.

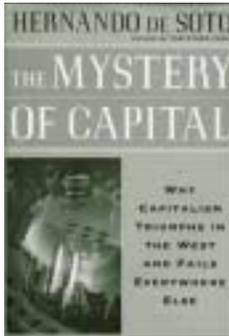
*Consorcio Justicia*

The staff of the *Fundación Papyrus* joins me in sending words of condolence and solidarity in the wake of the terrible disaster you have suffered. We were all affected and outraged by the horrible scenes, and we deeply mourn the many victims and the vast property damage resulting from the terrorist attack. We pray that you can find the courage and fortitude to forgive and carry on and that the whole world will be able to live together in love, peace and respect.

We want to express our anguish over what has occurred and assure you of our solidarity at this time of great sorrow for the entire world. You are in our thoughts. Is there anything we can do?

*Mancomunidad de Barinas*

# At the IAF Resources



## **The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else**

By *Hernando de Soto*  
*El Comercio: Lima, 2000*  
*Basic Books: New York, 2000*

Reviewed by *Bob Maguire*

“The hour of capitalism’s greatest triumph,” begins Hernando de Soto in *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, “is its hour of crisis.” The reference is to the fall of communism, which left capitalism to dominate the world. Following a very readable and compellingly argued 228-page elaboration of this

opening statement, the author concludes that capitalism is in crisis “because developing and former communist nations have been unable to ‘globalize’ capital within their own countries.” Most people in these nations, he continues, “view capitalism as a private club, a discriminatory system that benefits only the West and the elites” who live under protective and exclusive “bell jars.”

According to de Soto, this system of “economic apartheid” has excluded some 80 percent of these nations’ inhabitants from the opportunity to use their economic assets for security, investment and growth. Some might argue that the poor benefit from global capitalism through increased access to such consumer products as fast food, technological gadgets and other indicators of today’s global economy. However, de Soto insists the real benefits of capitalism emanate

### **Hernando de Soto and the IAF**

Since the publication of *The Other Path* in 1989, Hernando de Soto has enjoyed the status of an international media figure. *Time* named him one of the five most important Latin American innovators of the past century; *The Economist* considers his Instituto Libertad y Democracia (ILD) among the world’s top think tanks; *Entwicklung und Zusammenarbeit* lists him as one of the most important development theorists; and he was recently featured on PBS’s *Commanding Heights: The Battle for the World Economy*. His latest work, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*, reviewed here, is Peru’s all-time best-seller and has been translated into 20 languages. The Inter-American Development Bank places it among the 10 best books published on business and finance in 2000 in the United States and the United Kingdom.

Even before de Soto became a celebrity, his bold poverty reduction strategies had caught the attention of the Inter-American Foundation. In 1985, the IAF awarded the ILD \$243,600 toward the development of a private system for registering and titling properties in Peru’s informal sector, especially in Lima’s slums. The funds allowed the Institute to assess, as models for property registration in Peru, systems in the U.S., Germany, Australia, Spain, Brazil and Chile. “The IAF’s support was crucial for the development of our property reform program initiated in Peru in the 1980s,” said the ILD’s Executive Director Manuel Mayorga as *Grassroots Development* went to press. “It created the foundation for sensitizing public opinion and putting on the Peruvian political agenda the problems facing the poorest citizens.”

*Katherine Hutter, IAF intern*

from the conversion of the informally held property of the poor—what he calls “dead capital”—into legally recognized assets that can be readily used to create additional capital. Not only are most of the assets of the world’s poor “dead,” as de Soto demonstrates with statistics and tables based on data from Peru, Egypt, the Philippines and Haiti, but collectively they outvalue the legally recognized capital assets of government and industry in underdeveloped and former communist countries by magnitudes of at least three or four times their worth.

The author knows of what he writes. An influential and widely respected professional in his native Peru, de Soto set up a small garment workshop in a peri-urban area, as many of the hundreds of thousands of migrants to Lima have done, and then tried to register it legally. The ordeal confirmed his suspicion that the legal system works to deny entrepreneurs of the informal economy formal ownership of their assets. Although valued far in excess of those held in the formal economy, such capital assets remain “dead,” de Soto verified, dooming these entrepreneurs—and their counterparts all over the world—to marginal participation in the much ballyhooed global economy.

Assisted by a sophisticated team of researchers, de Soto finally succeeded in legalizing his enterprise—after devoting 289 days full-time to the registration process and paying \$1,231 in fees. Obtaining title to state-owned land, on which many migrant entrepreneurs establish their businesses, was even harder. That required 207 administrative steps in 52 government offices, which took de Soto and his team six years and 11 months. Similar experiments with collaborators in Egypt, the Philippines and Haiti uncovered similarly vast sums of dead capital and equally insurmountable obstacles confronting both urban and rural entrepreneurs seeking to use assets the way those under the bell jar use theirs.

Citing his experience as only the tip of an iceberg, de Soto reasons that this bell jar of capitalism reduces the assets of the poor to uselessness; unless it is lifted, social explosions, violence and terrorism emanating from the growing population of the excluded will be an ever-present reality. The author challenges those under the jar not to fear the provision of equal opportunity to the poor. Once the dead

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capital of those locked out of capitalism’s private club can be used legally as collateral for investment and security, it will form the basis for massive economic growth and increasing social equity in even the poorest of countries.

To underscore his arguments, de Soto draws liberally from his ongoing work in the Western Hemisphere’s most notoriously poor country, Haiti. There, it has been his good fortune to discover a number of allies among the country’s political and economic leaders. This has occurred, at least in part, as a result of such experiences as the attempt of a group of Haitian women banking executives, 20 years ago, to learn more about conditions of poor women market vendors in Port-au-Prince. These upper-middle class professionals decided they would each try to live for a month on less than \$100, the monthly income the vendors earn.

“There was no way we could do it,” Marie Michèle Rey, one of the participants, reminded me recently. “That experience gave us an appreciation of the problems those women faced every day just to survive. We couldn’t believe it.” Based on this awareness, the bankers created a precedent-setting program in micro-credit and financial management training. As a consequence, Haitian banks that once avoided \$100 loans like the plague today compete to attract small market sellers into their successful lending portfolios.

The “walk a mile in their shoes” strategy of two decades ago had a lasting personal impact on Rey and pushed her down an activist path. As Haiti’s minister of finance and, currently, as a leading government economic negotiator, she has become a prominent advocate for small enterprise and economic justice.

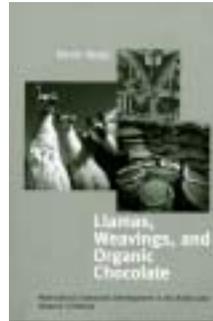
But few among capitalism's elites—be they bankers or others in the West or outliers of former communist or underdeveloped countries—are prepared to experience the challenges of the poor as these bankers did. And de Soto recognizes that fact. Yet, he fears that if capitalism's leaders and decision makers fail to grasp lessons like those learned by Rey and her associates, the economic system that so benefits them faces a dark future.

To avoid an eclipse of capitalism, de Soto calls for nothing short of “the emancipation of the poor” from their marginal economic status, and he sets forth a broad blueprint. Its foundation is a fascinating, intricately entwined analysis over both space and time of how developed, Western economies faced challenges similar to those facing today's underdeveloped and former communist countries, and overcame them. While the blueprint is broad, it contains undeniably important components. Principal among them is the necessity for political leaders and at least some members of capitalism's elites—including its lawyers—to wake up to the realization that procedures and laws benefiting so few must be changed to comply with the requirements of the many. As Gandhi once said, “Let me go, for there go my people and I, as their leader, must catch up to them.” Hernando de Soto implores the economically and politically privileged to absorb the lessons of others and act decisively in addressing the formalization of ownership and assets so they can catch up to the reality of their compatriots.

De Soto's book is neither a doomsday analysis of the coming age nor an ode to capitalism. Rather, it is a pragmatic argument that the poor and their significant assets can be the motor for the creation and fortification of vibrant, capitalist economies. Inclusion is the key. The question now is whether de Soto, with the assistance of allies worldwide, can succeed in compelling those under the bell jar to reassess the practices and policies that protect them but have kept entrepreneurial “wannabes” on the outside looking in.

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### **Llamas, Weavings, and Organic Chocolate**

*By Kevin Healy*

*University of Notre Dame Press:  
Notre Dame, 2001*

*Reviewed by Michael W. Foley*

In the 1940's and 1950's as foreign aid, mostly from the United States, began to pour into Bolivia and other countries in Latin America, so did the assumptions and prejudices of Western planners, agronomists, animal scientists and assorted other specialists. Those preconceived notions meshed nicely with the long-standing view of Bolivia's largely white elite that indigenous languages, cultures, social practices, agriculture, livestock and food were not only hopelessly backward but destined for extinction as Bolivia's rural Indian majority were civilized to speak Spanish, wear Western clothing, eat Western foods and adopt Western innovations in farming and business practices.

The environmental degradation and cultural destruction that followed early infusions of Western aid make for a remarkable, if devastating, tale. But Kevin Healy chooses to tell another tale, that of an equally remarkable turnabout. In his book, he chronicles how indigenous peoples and a few determined allies led a revolution in attitudes toward Bolivia's cultural and agricultural heritage that has transformed how people live and work. Healy, who has worked in the Andes for more than 30 years, 21 of those as program officer for the Inter-American Foundation, writes from the privileged vantage point of having accompanied over the last two decades many of the organizations and movements which catalyzed this turnabout.

He starts by tracing the broad outlines of Bolivia's development since independence. For the first 50 years of its existence, the new state was sustained by taxes on indigenous communities, but reform laws passed by an ascendant Liberal Party in the latter half of the nineteenth century divested Andean communal organizations, or *ayllus*, of their lands and authority, while colonists in the Amazon regions forcibly displaced Indians wherever disease had not already

decimated their ranks. The Revolution of 1952, led by the National Revolutionary Movement (MNR), restored land to indigenous communities but substituted MNR-affiliated *sindicatos* for traditional authorities. The MNR's attitude was best summed up by President Victor Paz Estenssoro who in 1953 proclaimed land reform before an indigenous audience of 200,000 by announcing, "From now on you will no longer be Indians [*indios*] but peasants!"

Western aid administrators likewise considered indigenous cultures and institutions obstacles to rational development. The Bohan report, written for the State Department in 1942 and extraordinarily influential during the decades that followed, presented the Aymara world view, and even the language, as barriers to progress. "An exposure to the modern tractor and an opening up of the vast tropical rainforests in the eastern lowlands," Bohan speculated, "would perhaps point the [highlands] Aymara to a new way of life." Indeed.

In colonization schemes designed to upgrade both the people and the land, many Aymara and Quechua peasants came to the inhospitable settings they were expected to tame with modern techniques, but few stayed. Those who did often had to unlearn much of what the development experts had taught them. When, for example, Aymara and Quechua settlers and indigenous Mosevenes founded El Ceibo cooperative in the Alto Beni region of the Bolivian Amazon on land recently stripped of rainforest, foreign advisers and Bolivian professionals instructed them in planting neat rows of cacao, banana or citrus trees to recreate the uniform monoculture so familiar in U.S. farming. Twenty years later, in response to resistant new diseases and a sudden demand for cacao produced using sustainable organic techniques, the settlers learned the advantages of intercropping and restoring some of the forest growth bulldozed in the 1960s.

The Bohan report ignored native pastures and livestock, favoring instead the importation of grasses and forages familiar in the United States and improvement of sheep and cattle through breeding programs with North American stock. These prejudices reinforced the dominant stereotypes held by the Bolivian ruling class, who, for example, regarded llama meat as unsanitary Indian foodstuff. It would take repeated efforts to overcome such prejudices and

even longer to repair the damage to pastures and hillsides attributable to the scourge of sheep introduced by Spanish colonists and later proliferated with Western aid and advice.

The revolution that is the subject of Healy's book began with a cultural revival movement, the Kataristas, named after Tupak Katari, leader of what was probably the largest indigenous anti-colonial uprising of the 18th century. The Katarista movement was launched during the darkest days of the military dictatorship of the late General Hugo Banzer (who resigned in 2001 as president of Bolivia, a position to which he had been elected as a civilian). It aimed to restore pride in Andean languages and culture as the basis for any genuine development. The movement had the support of some Catholic institutions, but it was young Aymara intellectuals who propelled it forward, so that by 1978, in the country's first democratic elections in years, political parties were actively seeking Katarista support. Through both educational initiatives and well-publicized acts of civil disobedience, the Kataristas insisted that indigenous peoples, their language and their culture had to be a proud part of Bolivia's educational, social, economic and political systems. At the same time, hitherto isolated ethnic minorities from the lowlands of Santa Cruz were coming together in a pan-ethnic coalition to press for recognition of indigenous claims to land and for autonomous self-government. One of the most moving of the nine case studies that Healy presents here recounts the building of this coalition and its eventual 1990 March for Territory and Dignity of the Indigenous Peoples of the Beni that became a turning point in the lowlands Indians' role in national life.

The culmination of the struggle for incorporation of indigenous life and culture into contemporary Bolivian consciousness was not without its ironies. Expressed politically in the election of Victor Hugo Cárdenas, the country's first indigenous vice president, the new opening to indigenous participation in national life resulted partly from economic crisis and institutional restructuring, including application of a cook-book neoliberal structural adjustment plan, with the usual drastic consequences for national production, employment and rural income. Despite the attendant crisis—and in part because of it—the coalition Sanchez Lozada government was able to push

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plans for decentralization, bilingual education and the extension of collective land rights to the indigenous populations of the eastern and southern region.

This rich narrative, however, is only the prelude to a set of equally rich case studies, from the account of El Ceibo's rise as the country's premier cacao and chocolate producer and exporter to that of the rejuvenation of alpaca and llama herding for impoverished populations of the highlands to the rescue of an almost lost art of weaving among the Jalq'a people of central Bolivia—the "llamas, weavings, and organic chocolate" of the title. Along the way, Healy also tells how indigenous farmers on the edge of the vast salt pan of the central Andes managed to commercialize the nutritious quinoa grain. He recounts the growth of women's education in the desolate highlands of Oruro and elsewhere, the discovery and marketing of arts and crafts from the back country of Santa Cruz; and the recovery of the vast storehouse of indigenous knowledge on the many varieties of the potato.

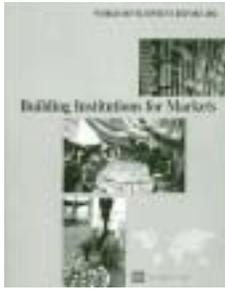
The author is part of this multi-chaptered story and can tell much of it first hand because he was there, often as representative of an agency that has been unique in providing for institutional growth among the groups it funds on the condition that the beneficiaries of a development project direct it. The successful cases Healy examines point to the importance of key elements in participatory development, an often overly vague concept. These include a long-term commitment to training local people, using participants as paraprofessionals, and providing professional education for the exceptionally talented and committed. At the same time, self-management and

collective empowerment—the sense that the group as a whole has the power to change things and benefit—anchor these efforts in the respective communities. Related to the book's general theme is the insistence that successful development depends upon mobilizing local skills and local expertise regarding both the work at hand and the best ways to organize that work. Outside organizers can often be powerful catalysts for change, particularly when they are foreigners, Healy notes, in a country such as Bolivia where elites harbor enduring misconceptions about the capacity of indigenous peoples and *campesinos*.

Healy is careful to note the many impediments, mistakes and challenges that often beset the successful efforts he describes. Not the least of these continues to be the larger historical context, from the stubborn ethnic biases already mentioned to the ups and downs of the Bolivian economy. While the former should inevitably recede as indigenous culture and practices become more appreciated, the latter is a wild card that can overwhelm grassroots development without the careful attention of donors, and sometimes despite such attention. As chronicled here, more troubling was the hostile reaction of a pampered private sector to the cooperatives and communal enterprises that were determinedly raising themselves up by their bootstraps. At the local level, intermediaries sometimes used force against upstarts seeking direct access to markets; at the national level, businesses that felt the threat to their monopolies, subsidies and exclusive access to credit, attempted to tar grassroots development organizations with accusations of unfair competition. The good news is that, with sustained support from conscientious donors, many such organizations have withstood the attacks and prospered. Kevin Healy's book tells us how they did it and provides both insight and inspiration for anyone concerned with development as if people mattered.

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### **Building Institutions for Markets**

*World Development Report 2002*  
By the World Bank  
Oxford University Press: New York,  
2001

Reviewed by Miriam Euclides  
Brandão

The World Development Report (WDR) is the World Bank's best known annual publication focusing on the economic, social and environmental state of the world. Each year, a specific aspect of development is selected for in-depth analysis. This year's report, *Building Institutions for Markets*, argues that building effective market institutions is the central challenge for communities and economies. It explores the functions of those institutions, provides a framework for understanding how they support markets, and examines how to effectively create and foster them.

WDR 2002 builds on last year's report, *Attacking Poverty*, which argued for harnessing the forces of global integration and technological advance to reduce world poverty. The success of this strategy, though, would depend on how markets, institutions and societies function—and on the public choices made locally, nationally and internationally. According to the 2001 report, markets matter for the poor, who rely on formal and informal structures to sell their labor and products, finance investment, and insure against risks. Income from participating in the market is key to generating economic growth for nations and to reducing poverty for individuals, the report concluded, and institutions play an important role in how markets affect standards of living and rights.

Along with the foundation laid by last year's study, an understanding of development trends since the mid-20th century is helpful to a productive reading of the WDR 2002. In the 1950s and 1960s many countries chose an inward-looking, state-led path to economic development and poverty reduction. In most of Latin America, this strategy—characterized by government intervention and protection of local industry—delivered strong growth during the 1960s, but the oil shocks of the 1970s and the debt crisis of the 1980s led to a drastic reduction in growth and,

consequently, a search for alternatives. State intervention in markets was replaced by private incentives; public ownership gave way to private ownership; and protection of national industries yielded to competition from abroad. Many of these changes reflected the principles of the Washington Consensus, predicated on the assumption that markets were infallible and would solve all problems—all you needed to do was get government out of their way.

But, did these reforms deliver the expected growth? Empirical evidence has shown that, on average, monetarily and fiscally responsible countries open to foreign trade, with well-developed financial markets, enjoy better long-run growth and lower inflation than countries without such market-friendly policies. Yet, the developing world as a whole has not enjoyed rapid growth as a result of the reforms of the 1980s and 1990s. Most often, growth has been negligible. Considering that low inflation and high growth are powerful forces in reducing poverty, this disappointing performance has been especially cruel to poor people. Proponents of the Washington Consensus now claim these policy changes were only a “first generation” of reforms, insufficient to deliver the broad-based growth most developing countries needed. “Second-generation” reforms, such as developing an independent judiciary, autonomous and effective regulatory agencies, and professionalism in the public sector, are required to consolidate any gains from policy changes.

In this context WDR 2002 discusses the roles and functions of institutions in raising incomes and reducing poverty. Weak institutions, it argues, hurt poor people and hinder development by working to exclude poor people and poor countries from the benefits of markets. It makes the case that markets do not work well in developing countries because they do not give poor people the incentive to engage in wider trade, the ability to use their skills and resources fully, or the opportunity to increase their incomes and accumulate assets. Markets work in a framework of rules, enforcement mechanisms and organizations that promote transactions, ranging from the judicial system to chambers of commerce.

What do institutions that support markets do? They ease the flow of information about market conditions, goods and participants; they define and

enforce property rights and contracts; and they enhance and manage market competition. These functions affect the distribution of assets, incomes and costs; the efficiency of transactions; and the incentive structure for participants. Effective institutions enhance productivity, equity and growth.

WDR 2002 synthesizes data gathered in some 100 countries into 10 chapters grouped in four parts. The first part, analyzing the functions of institutions in supporting growth and poverty reduction, provides evidence that the poor bear the greatest burden of institutional failure. This is particularly clear in the case of the legal and judiciary systems, which illiteracy and the inability to pay for representation put beyond the reach of the poor. Likewise, the failure of the state to protect property has an excessive effect on poor people who cannot afford to protect themselves from crime. And then there is corruption, which, when expressed as demands for bribes and unofficial service fees, imposes a very regressive “tax” hitting poor people the hardest. The section concludes with four basic principles to guide policymakers in designing more effective institutions: complement what already exists in terms of institutions, human skills and available technologies; innovate by experimenting with new structures that suit local norms and conditions; connect communities in networks through open information flows and open trade; and promote competition among jurisdictions, firms and individuals.

Firms are the building blocks of markets because they produce the goods and provide the services that form the basis of market exchange. Part II reviews the details of institutional design for three kinds of firms: farms, nonfinancial firms and financial systems. For farms, the issue is how producers in developing countries can increase productivity and reduce risks. Because poor people often live in rural areas and from agriculture, this sector is especially important to poverty reduction. Improvements in the institutions governing markets for land, credit, technology and agricultural output are discussed. For firms, the report looks at the problems of corporate governance, the internal allocation of and exercise of control over resources. Institutions affecting this governance also affect growth and poverty reduction because they determine how resources are allocated and who has rights over them. Large firms, for example, account

for a substantial proportion of value added and employment. If their governance is weak, they face financial and economic crises, with serious consequences for workers and poor people in general. But when these firms do well, they contribute significantly to growth and have a positive impact on people’s lives. As for financial systems, which perform critical functions for market systems and make fundamental contributions to economic growth, the report explores the necessary conditions for their development and the role of supervisory and regulatory systems in ensuring their health. Its conclusions incorporate new information on the role of politics in financial development, on institutions used to secure access for new borrowers, and on the effects of bank privatization and foreign bank entry.

Part III concentrates on the role of government, which provides many institutions that support markets. The state’s successful provision of these institutions—“good governance”—is an important determinant of how well individuals behave in markets and how well markets function. Good governance includes the creation, protection and enforcement of property rights; the regulatory framework to promote competition; and sound macroeconomic policies that create a stable environment. It also includes the absence of corruption (defined as the exercise of public power for private gain), a condition essential to the legitimacy of the public institutions supporting markets. There is powerful evidence that good governance affects a country’s overall economic growth and is thus central to poverty reduction. Moreover, since several dimensions of poor governance, such as corruption and high inflation, impose costs that fall disproportionately on poor people, improvements in these dimensions may be especially important to poverty reduction.

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In examining how political institutions support good governance, the report focuses on the policy-making process, the incentives for corruption, and the institutions of taxation. Recent studies shedding new light on processes (decentralization and orderly elections) and institutions (the press and fiscal society) with the potential to restrain politicians from corrupt practices are explored, as well the effect of the judicial system, competition and the regulation of infrastructure on efficiency and distribution goals.

Societal norms and networks, as well as the role of the media in market development, are the subject of Part IV. Discussions focus on how norms and codes of conduct—often referred to as informal institutions and sometimes as “culture”—influence, and are themselves influenced by, markets and public institutions. Most of the world's poor are excluded from formal institutions because of geographical, social, cultural or economic isolation. For them, informal institutions, such as community networks, reduce the risks of doing business and provide access to, and benefits from, market opportunities. In such circumstances, the introduction of new formal systems could have unanticipated economic, as well as political and social, outcomes. Thus, policy makers need to design formal institutions that complement the existing informal ones.

The report ends with an exploration of the role of the media in expressing and disseminating the concerns and values of society—and the effects such information flows have on institutional quality and, consequently, on economic and social outcomes. Because of their reach, the media can inform poor and marginalized people. They can affect politics and culture, supporting institutional change and market development. As a result, they can improve governance and support markets—but only if they are independent, accountable and free to provide relevant information and reflect diverse social views. Too often, unfortunately, the media do not have these qualities.

Competition in the industry and effective complementary institutions, such as the judiciary and independent regulatory agencies, can encourage responsible journalism and otherwise strengthen the media.

In October 2001 the Nobel Prize for Economics, the most prestigious recognition for contributions to the field, was awarded to three U.S. economists. George Akerlof, Michael Spence and Joseph Stiglitz were honored for their work on markets with “asymmetric” information, meaning one side of the market is better informed than the other, with, for example, sellers knowing something buyers don't. Laissez-faire economists maintained that markets, if left alone, were all-wise and self-correcting. By challenging the notion of perfect markets ruled by perfect competition based on perfect information, Akerlof, Spence and Stiglitz' research has transformed the way economists think about the workings of markets. In real markets, these Nobel laureates argue, information is not perfect, and it falls to government to level the playing field by addressing the gaps. In this and other ways, appropriate public sector regulation can actually complement markets.

Obviously, Akerlof, Spence and Stiglitz' models and theories have greatly influenced the WDR 2002. *Building Institutions for Markets* clearly recognizes the important role governments have to play in improving upon how markets function, particularly in developing countries, where markets typically work much less well and information is much less perfect. The WDR 2002 makes an important contribution to development economics because, in addition to offering guidance to policy makers, it clarifies how economies and societies work. Only by understanding this interaction can we begin to resolve one of the most elusive, challenging and critical social objectives: the eradication of poverty.

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## Peasant Marketing in Nicaragua

By Orlando Nuñez Soto

CIPRES: Managua, 2000

Reviewed by Roberto García

The Center for Research and Promotion of Rural and Social Development [El Centro para la Investigación, La Promoción y el Desarrollo Rural y Social] (CIPRES) is a nongovernmental organization that assists impoverished peasants in Nicaragua. This book, *Peasant Marketing in Nicaragua [La Comercialización Campesina en Nicaragua]*, compiled and edited by Orlando Nuñez Soto, CIPRES' director, introduces the reader to how marketing, on both a national and international scale affects small producers, particularly those who grow coffee, identified as one of the country's main crops. The book also explains the meaning of the term "fair trade" in this context and analyzes it as a means for extricating peasants and small producers from their disadvantaged position with respect to prevailing marketing practices. Anecdotal evidence of the book's premises, as well as a discussion of organizations supporting direct marketing by producers, further enriches the content.

"The peasants should not be in the unfortunate situation in which they find themselves, inasmuch as it is they who produce most of the wealth," Nuñez Soto notes in his introduction. "[H]alf the country's population is poor . . . it is a secret to nobody that rural families are among the most seriously affected." Nicaragua's current financial crisis has been especially hard on rural producers, who suffer the adverse consequences of lack of credit, absence of training and technical support, and unfair preferences in the treatment of imports and exports.

The book points out the highly significant fact that, for years, many assistance organizations have supported production, but not marketing. Peasants receive little or no support for their efforts to market their own products, which would add value to what they produce and afford them the opportunity to balance production losses with increased revenues from direct sales. When the producer cannot control the process, he cannot sell his product directly to the consumer. So, in the production-marketing-consump-

*The majority (between 88 and 89 percent) of Nicaragua's small producers grow coffee and the current drop in prices as a result of a world-wide glut has had devastating consequences for those who depend on the crop.*

tion chain, the individual benefiting most from the product remains the middleman—who buys very low and sells high enough to make a tidy profit.

The majority (between 88 and 89 percent) of Nicaragua's small producers grow coffee and the current drop in prices as a result of a world-wide glut has had devastating consequences for those who depend on the crop. In fact, trade inequality has generally left peasants and small producers on the losing end of the international equation, paying higher prices for what they import in relation to the lower prices they receive for what they export. According to a recent study, the biggest problems for small producers, as well as for the Nicaraguan economy, are insolvency, a result of earning less for their product than the cost of producing it, and, because most growers depend on financing, the high rates of interest the banks charge. Following these, however, is a long list of other factors impacting the development of effective marketing at the producer level. Among those the book details are

- very low volumes in terms of covering costs;
- problems of quality control, administration and management of commercial activities;
- the small producers' lack of experience in processing their products for marketing;
- added transaction costs due to dispersion, small size of parcels cultivated and poor roads;
- insufficient resources for financing market operations;
- lack of capital assets as collateral to secure bank financing;

- absence of any direct contact with the final wholesale buyer; and
- insufficient incentives to commercially produce organic and alternative crops.

The book's analysis of the marketing problem is rounded off with a call for action at the national level directed at overcoming these difficulties and helping to pave the way for better conditions. These include

- funding to increase crops,
- a database with updated information on the national and international market,
- a clearinghouse for peasant marketing groups and projects,
- training for marketing agents,
- advertising to promote products, and
- support for strengthening institutions.

An additional internationally proposed alternative is "Fair Trade" to compensate the small producers and peasants who, for decades, have been receiving lower prices than they deserve, both at home and abroad. As used in the book, the term involves concepts new to Nicaraguan producers, such as the mediator-facilitator, the associate producer and the responsible consumer, all elements in a novel process of partnership replacing unfair trade. The heart and soul of Fair Trade is the concept that, as part of the production-marketing-consumption chain, the responsible consumer pays a surcharge for the product he consumes. This addition of between 10 percent and 15 percent to the world market price would support the opening of new spaces that can help make commercial relationships more favorable to peasants and small producers. While the few Fair Trade innovations introduced in Nicaragua have been small-scale and experimental, the author nonetheless considers Fair Trade the only alternative for securing the viability of small growers and peasant farmers.

Any change in the way agricultural products are currently marketed in rural Nicaragua will clearly require—in addition to action by the peasants themselves through the "popular economy" (defined as the economy at the grassroots, marginalized from

national macro-economic indicators)—assistance from organizations that can contribute financial and other support. Isolated, small-scale experiments have in fact demonstrated the validity of a combination of training and technical support with other kinds of aid. Given the desperate circumstances of most Nicaraguan peasants and small producers, *Peasant Marketing in Nicaragua* convincingly argues that further assistance could only be for the better.

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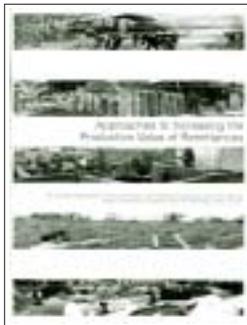
*Roberto García is IAF's local liaison advisory services contractor in Nicaragua. Peasant Marketing in Nicaragua is available through CIPRES:*

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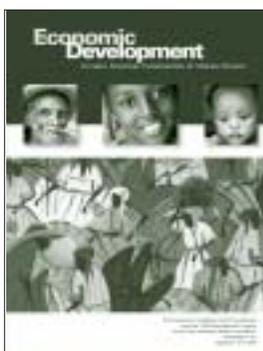
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# IAF Publications 2001-2002



The recent explosion in migration to the United States dramatically increased remittances to Latin America and the Caribbean at the same time official assistance was declining—a coincidence that has made remittances of critical interest to the development communi-

ty. In March 2001, the IAF, the United Nations Economic Commission on Latin America and the World Bank co-sponsored the first multilateral conference to probe the topic. The resulting publication, *Approaches to Increasing the Productive Value of Remittances: Case Studies in Financial Innovations and International Cooperative Community Ventures*, coordinated by IAF representative Carlo Dade, is the most thorough exploration to date of the potential for channeling remittances into development projects.



According to recent census information, people of African descent make up one-third of Latin America's population, yet comprise 50 percent of its poor. Only in the last few years has the existence of their communities been documented and the available research tells us little about

the residents' economic engagement. At the 2001 International Congress of the Latin American Studies Association, an IAF-sponsored panel focused on issues surrounding the self-help efforts of this minority often described as invisible. In *Economic Development in Latin American Communities of African Descent*, IAF representative Judith Morrison has compiled the panel's presentations, including her own detailing IAF's support for three Afro-Brazilian initiatives.



The transfer of public resources and functions from central bureaucracies to local government throughout Latin America and the Caribbean was the theme of the July 16, 2001, forum co-sponsored by the IAF and the Unit for the Promotion of Democracy of

the Organization of American States. *Building Democracy from the Grassroots* compiles the panelists' presentations on the role of decentralization in consolidating democracy, promoting citizen participation and reducing poverty. These include Ramón Daubón's engaging analysis of the civic process that accompanies grassroots development based on his study of several IAF projects.



*Together* by Beryl Levinger and Jean McLeod examines the experiences of 12 intersectoral partnerships—among NGOs, local government and, in some cases, private sector businesses—working on grassroots development in five Latin American countries. The authors analyze the vocabulary,

stages and types of partnerships entered into, as well as the benefits and burdens of such collaborations. Lessons learned from their on-site research do not always conform to the conventional wisdom but find ample support in the data provided by the projects profiled in this book.

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To order any of the above, e-mail [publications@iaf.gov](mailto:publications@iaf.gov) or write to: **Office of Evaluation and Dissemination  
Inter-American Foundation  
901 North Stuart Street, 10th Floor  
Arlington, Virginia 22203.**

Supplies are limited. All publications are or will be available in English or Spanish on the IAF's Web site accessible in graphic or html format.



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