

Promoting Sustainable Development in Latin America:
Foreign Assistance and Popular Empowerment

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Prepared for delivery at the 1997 meeting of the Latin American Studies Association, Continental Plaza Hotel, Guadalajara, April 17-19, 1997.

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The Inter-American Development Bank and the Inter-American Foundation publicly support “grassroots development” and “popular empowerment” in Latin America. This paper examines the processes through which development projects are identified, designed, and implemented by both agencies. Review of the project cycle highlights the relative advantages of the Inter-American Foundation in promoting grassroots development. The last section considers the extent to which recent programmatic reforms at both the Inter-American Development Bank and Inter-American Foundation jeopardize their commitment to grassroots development.

The Inter-American Development Bank (IDB) is the largest source of multilateral foreign assistance to the nations of Latin America. A much smaller amount of assistance is provided by the United States Inter-American Foundation (IAF). Both institutions publicly support “grassroots development” and “popular empowerment” in the region. This paper examines the relative success of the IDB and the IAF in promoting grassroots development. To what extent does their rhetorical support for grassroots development mirror their actual performance?

This paper is organized as follows. The first section briefly outlines how the idea of “development” and the nature of foreign assistance have changed overtime. I then review the official position of both the IDB and the IAF with respect to grassroots development in Latin America. The third section considers the process through which development projects are identified, designed, and implemented by both agencies. A cursory review of the project cycle points to important differences between the IDB and the IAF. The last two sections consider the extent to which programmatic reforms at both institutions jeopardize their respective commitments to grassroots development.

DEFINING “DEVELOPMENT”

Clearly the idea of “development” has changed over time. The earliest formulations usually equated “development” with economic growth. Foreign assistance programs to Latin America were structured to stimulate and expand national economies, improve physical infrastructures, and promote industrialization. Yet these programs produced mixed results. While they did facilitate economic expansion, the benefits of growth rarely filtered down to the poor. In fact, impressive economic growth rates often coincided with greater income inequality and declining living standards.

This early experience with foreign assistance to Latin America contributed to a broader definition of the development process. “Development” would now signify improving the basic living conditions of the poorest sectors of Latin American society. Foreign assistance programs were reoriented toward the provision of nutrition, health care, education, housing, and employment. Although these programs helped meet the basic needs of Latin America’s poor, they also encountered criticism. Opponents argued that these programs only responded to the “symptoms” of poverty rather than addressing its root causes.

This experience also produced a generalized reassessment of the development process. Development would now be associated with “empowering” subaltern groups by removing the social, economic, and political barriers which prevent poor people from achieving their full potential. Poor communities should not simply be the recipients of assistance but should be active participants in improving their own conditions. This basic philosophy was soon labeled “grassroots empowerment.”

“Grassroots empowerment” is now considered an integral part of the development process. There is a general consensus that development projects should foster grassroots initiative and capacity building. Poor people must obtain access to and control over productive resources. This will create more self-reliant communities which have the skills and resources necessary to meet their own needs on a long term basis. Development is thus considered a *bottom-up* rather than a *top-down* process.

In recent years, efforts to foster grassroots development have emphasized the importance of non-governmental organizations (NGOs) such as peasant cooperatives, trade unions, women’s collectives, human rights committees, and community organizations.¹ NGOs, which operate at the base of society, are considered an effective vehicle for promoting self-reliance and popular empowerment. NGOs also represent an alternative to both state-led and market-led development strategies. Because the statist approach favors those groups most closely associated with the political elite it rarely promotes genuine social transformation. The free-market approach also reinforces existing inequalities by favoring those groups which already have access to productive resources.

PRIORITIZING GRASSROOTS DEVELOPMENT

Both the Inter-American Development Bank and the Inter-American Foundation prioritize grassroots development. Both agencies officially support nongovernmental organizations and

¹There is an extensive literature on the role of non-governmental organizations in the development process. See especially, Green and Matthias, 1995; Gorman, 1984; Ekins, 1992; Edwards and Hulme, 1992; Drabek, 1987; Reilly, 1989, 1995; Clark, 1990; Annis and Hakim, 1988; Tandom, 1991; Riddell, 1995; Landim, 1987; and Korten, 1990.

popular empowerment in Latin America. While this position has only recently been adopted by the IDB, it has been a central objective of the IAF since its founding.

The Inter-American Development Bank is the largest of the regional development banks and provides about \$7 billion in loans and technical assistance each year. Since its creation in 1959 the Bank has lent over \$60 billion to support a wide variety of development projects and programs. Cumulative investment in IDB-sponsored projects has now eclipsed \$200 billion.

The IDB is jointly owned by its forty-six member countries.² Each member country appoints one representative to the Board of Governors which is responsible for the overall operation and lending policies of the Bank. The Board of Governors appoints a fourteen member Board of Executive Directors which approves loans and technical cooperation proposals, sets interest rates, authorizes Bank borrowing in capital markets, and approves the administrative budget. The Board of Governors also selects a President who is responsible for the day to day operations of the Bank and presides over all meetings of the Executive Directors.

The IDB provides loans and technical assistance to member countries through one of two major facilities. The Ordinary Capital Account provides loans at near market interest rates with maturities of fifteen to twenty-five years. The Bank will finance up to fifty percent of the total cost of a project for the more economically developed countries and up to eighty percent of total costs for the poorer countries.³ The IDB generates about ninety percent of its funds for the Ordinary

²Twenty-eight of these countries are in the Western Hemisphere, including the United States and Canada. The Bank also has eighteen non-regional members, including Japan, Israel, and a number of European nations.

³The remaining capital comes from the public or private sector. The IDB's involvement in an operation is often a major incentive for private investors and commercial lenders.

Capital Account by borrowing in global capital markets. Member governments are also assessed an annual contribution or “subscription” calculated to reflect each nation’s relative economic strength.⁴

Member country’s subscriptions consist of paid in and callable capital. The paid-in subscription is in the form of a cash payment and represents a relatively minor portion of a member’s subscription.⁵

The IDB also provides loans through its Fund for Special Operations, (FSO). This facility is only available to those countries classified as economically less developed or considered to have limited markets.⁶ The FSO provides loans on concessional terms, generally at lower interest rates and with longer grace and amortization periods.⁷ The FSO may fund up to ninety percent of a project. Concessional resources have declined over time; while they constituted half of all loans

⁴Member subscriptions have been replenished eight times since 1964. The Ordinary Capital Account can also draw upon “trust funds” set up by member countries.

⁵Under the Eighth General Increase in the Resources of the Bank, the paid in portion represents only 2.5% of a member’s subscription.

⁶The lesser developed countries are Belize, Bolivia, the Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua, and Paraguay. Countries considered to have limited markets are the Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago, and Uruguay. As agreed during the Eighth Replenishment, Bolivia, Guyana, Haiti, Honduras, and Nicaragua will be the only countries entitled to soft loans in hard currencies from the FSO.

⁷The rates of interest charged on loans extended from the Fund for Special Operations varied in 1995 from one to four percent, depending on the stage of development of the country and the nature of the project, with grace periods ranging from four to nineteen years. For the less developed member countries the rate of interest was one percent during the first ten years and two percent thereafter. Maturities varied from twenty-five to forty years.

during the 1960s, they now represent less than five percent. The FSO is primarily funded by donor contributions, though some income is also derived from liquid investments and interest payments.⁸

While all member nations are able to participate in the Bank's policy-making process, the number of votes accorded each nation is proportional to their capital subscriptions.⁹ The Board of Directors approves loans from the Ordinary Capital Account by simple majority and loans from the Fund for Special Operations by a two-thirds majority.

In recent years the IDB has stressed the importance of grassroots empowerment and popular participation in the development process. As noted by the IDB's current President Enrique Iglesias, one of the Bank's central objectives is to provide "...support for civil society to help achieve economic targets using participatory mechanisms such as through micro enterprises, and social approaches such as mobilizing nongovernmental organizations the work with micro enterprises."¹⁰ Similarly, a recent Bank document states, ..."long-term growth and stability are also strengthened by expanding participation in the productive process. By providing opportunities for the poor, women, and young people, a growing number of Bank projects carried out by NGOs are drawing a broader cross-section of society into the economic mainstream."¹¹

⁸Concessional lending is also provided through the Intermediate Financing Facility which provides resources to pay part of the interest payments on loans from ordinary capital resources.

⁹Latin American and Caribbean nations currently hold slightly more than fifty percent of the votes, the United States has about thirty percent, Canada about four percent, and the non-regional members sixteen percent.

¹⁰Proceedings of the Thirty-Sixth Annual Meeting of the Board of Governors of the Bank, Washington, DC, IDB, 1995, p. 43.

¹¹Inter-American Development Bank, Basic Facts, p. 15.

Grassroots, participatory development is also a central objective of the Inter-American Foundation. In fact, the Foundation was created largely in response to the initial failure of U.S. foreign assistance in Latin America. An amendment to the 1969 Foreign Assistance Act created the Inter-American Social Development Institute (ISDI). This new institution was to be independent of the exigencies of short-term foreign policy and free of special interests. The amendment also authorized the transfer of \$50 million from USAID to enable the ISDI to operate much like a private foundation. The ISDI was later renamed the Inter-American Foundation and awarded its first grant in 1972. Since then, it has provided nearly four thousand grants totaling \$450 million to support grassroots or intermediary NGOs throughout Latin America. Grants are generally awarded for two years and average \$90,000. The Foundation's annual budget was about \$15 million during the 1970s, around \$25 million in the 1980s, and roughly \$30 million during the first half of the 1990s.

The Foundation has a nine person Board of Directors appointed by the President and confirmed by the Senate. Six board members come from the private sector and three from the Federal Government. The terms of the Board of Directors are staggered to prevent effective policy control by any given Administration. The President of the IAF is appointed by the Board of Directors.

The IAF was created to support innovative programs in agriculture, education, and institution building. Its central objective was to promote wider, more equitable participation in the development process. As the Foundation's Annual Report states, ... [t]he IAF works in Latin America and the Caribbean to promote equitable, responsive, and participatory self-help development by awarding grants directly to local organizations throughout the region."¹² The

¹²Inter-American Foundation, *94 in Review*, Arlington: IAF, p. 3.

guiding principles of the Foundation are defined as ... “fostering self-reliance and enabling the poor to gain control over their lives.”¹³ The Foundation views nongovernmental organizations as the most effective vehicles to deliver direct development assistance.¹⁴ The Report goes on to emphasize the importance of self-help, participation, and democratic institutions. “Participation in these self-help processes energizes, empowers and develops human resources.”¹⁵

COMPARATIVE EXPERIENCE

As noted above, both the IDB and the IAF publicly support grassroots development in Latin America. This section turns to the actual experience of these institutions. Three critical phases of the project cycle, identification, design, and implementation, provide the framework for this analysis. Identification refers to the initial recognition of societal barriers to advancement, design refers to the preparation of a specific development project, and implementation refers to undertaking the activities outlined in the project design. Preliminary comparison of the work of both the IDB and the IAF with respect to these three phases of the project cycle highlights the relative strengths and weaknesses of each agency.

The IDB and the IAF have clearly adopted different approaches to project identification. The IDB tends to support projects which originate with its own staff. As one IDB document outlines, ... “[s]taff specialists go on programming missions to the various Latin American member countries. Together with local officials and experts, they review the country’s development plans and

¹³Inter-American Foundation, *94 in Review*, Arlington: IAF, p. 4.

¹⁴Inter-American Foundation, *94 in Review*, Arlington: IAF, p. 4.

¹⁵Inter-American Foundation, *94 in Review*, Arlington: IAF, p. 6.

investment programs and help identify projects. Individual loan applications flow from this process of consultation and analysis.”¹⁶ The Bank maintains offices throughout the region which are responsible for undertaking country studies and proposing specific interventions to promote social and economic development.

The IAF, on the other hand, does not formulate overall country plans or impose predesigned programs on indigenous populations. The Foundation simply responds to requests for assistance from local nongovernmental organizations. Requests usually come to the Foundation in a letter outlining the proposed project’s beneficiaries, its goals, how they would be achieved, and how much money is needed. The Foundation often requests more specific information about the group making the proposal and further details on the project. Sponsoring groups must be formally established in Latin America and can not be political parties. There should also be a reasonable expectation that the organization would continue to operate after support ends.¹⁷ IAF representatives check the information provided and schedule a field visit. If the Foundation decides to fund the project a formal agreement is signed with the grantee. This agreement specifies the activities to be carried out, the timetable involved, and the required narrative and financial reports.¹⁸

The IAF thus limits its role to filling those resource gaps which local people identify themselves. In fact, the IAF draws a clear distinction between development projects and grantees. IAF officials consistently maintain that they do not have any projects in Latin America but simply support the projects of grassroots groups. The Foundation’s role is to simply facilitate what others

¹⁶Inter-American Development Bank, *Basic Facts*, p. 15

¹⁷The IAF’s project identification process is outlined in Meeham, 1978, p. 24.

¹⁸This process is outlined in greater detail in Breslin, 1987, p. 108.

are doing, rather than creating or shaping these efforts. It is thus an enabling arm through which grants flow to complement indigenous resources.

There are also significant differences between the IDB and the IAF with respect to the design of development projects. The IDB plays a lead role in the design of those development projects it funds. The Bank employs a staff of technical experts in each country responsible for project design. The Bank also works closely with officials from the host nation in preparing project designs.

The project design phase of IAF-supported projects departs markedly from that of the IDB. Although the IAF is an institution of the United States government, it was granted institutional autonomy within the federal government and is independent of other administrative agencies. It is thus able to carry-out its activities as independently as possible from the short-term policy interests of the U.S. Government. The IAF makes few attempts to impose priorities or structure on the projects it funds. In general about two-fifths of the funding has been for agricultural and rural development projects, with ten to twenty percent of the funds used for education and training, community services, urban enterprises, and research and learning.¹⁹

The IAF employs four basic criteria to evaluate project proposals. First, will the project provide its beneficiaries with goods and services that are needed and otherwise not available? Second, will the project contribute to the human development of its beneficiaries and not merely to physical or economic improvement? Third, will the project contribute to its beneficiaries indirectly by exercising leverage on their behalf? Fourth, will the project enhance the self-sufficiency of its

¹⁹Ruttan, 1996, p. 243.

beneficiaries?²⁰ Organizations funded by IAF are expected to provide their members with opportunities for active participation, including a voice in significant organizational decisions. Moreover, the experience gained in these activities is expected to have spillover potential for individual performance in the wider arena of family, community, and national life.²¹

There are also significant differences between the IDB and the IAF with respect to the implementation of development projects. IDB projects are carried out under the management of its own administrators and control remains centralized within the Bank. The Bank's field offices in the Latin American and Caribbean countries have a major role in supervising the administrations and disbursement of loans and closely follow the day-to-day progress of each project.²² These projects are also subject to the approval of host state governments.

Project activities supported by the IAF, on the other hand, are carried out by grassroots groups in the region. About two-thirds of IAF annual disbursements go to NGO intermediary support organizations that work with the poor, while the remainder is provided directly to grassroots organizations. The IAF was deliberately structured to have a relatively small staff and no field offices in order to minimize its involvement in the implementation of projects. The grantee has primary responsibility for planning, day-to-day operation, record keeping, disbursement of funds, and reporting.

²⁰The IAF's project evaluation criteria is outlined in greater detail in Meeham, 1978, p. 46.

²¹Meeham, 1978, p. 44.

²²Inter-American Development Bank, *Basic Facts*, p. 19.

By providing direct assistance to private organizations, the IAF also avoids bilateral agreements with host nation governments. There is no pre-approval by national governments for IAF funded projects.²³

CONTEMPORARY CHALLENGES

The preceding sections outlined the structure, purpose, and practice of the Inter-American Development Bank and the Inter-American Foundation. Both agencies champion grassroots, participatory development in Latin America. Analysis of their respective processes for identification, design, and implementation of development projects demonstrates the clear advantage enjoyed by the IAF. Although IDB administrators frequently champion participatory development, this philosophy is yet to be reflected in their actual practice. Reorientation of the work of IDB to more effectively promote grassroots development would require greater institutional autonomy from member governments.

The IAF, on the other hand, does benefit from such institutional autonomy. The Foundation is thus in a stronger position to support the work of indigenous groups throughout Latin America. The identification, design, and implementation of IAF-sponsored projects rests almost exclusively with local grassroots groups or intermediary NGOs.

THE PRIVATE SECTOR INITIATIVE OF THE IDB

In recent years, there has been a substantial shift in the lending policies of the IDB toward support for the private sector. The Bank's private sector initiative is reflected in the establishment

²³Beneficiaries are, however, required to work out operating arrangements with host countries.

of new institutions to facilitate private capital formation and the introduction of “policy-based lending” to support market oriented reforms throughout the region.

The IDB’s private sector initiative includes the establishment of three new institutions. The Inter-American Investment Corporation (IIC) was created in 1988 to provide loans without government guarantees to small and medium size enterprises.²⁴ The IIC targets those enterprises which are expected to make some contribution to overall national development. This might include expanding employment opportunities, broadening capital ownership, generating net foreign currency income, facilitating the transfer of resources and technology, utilizing local resources, promoting local savings, or promoting the economic integration of Latin America.²⁵ The IIC also provides financing in the form of direct equity investments. The IIC can finance up to thirty-three percent of the cost of a new enterprise and up to fifty percent of the cost of an expansion project.²⁶

The Multilateral Investment Fund (MIF) was established in 1992 to promote reform of investment policies and expansion of the private sector.²⁷ The MIF is itself made up of three separate facilities. The Technical Cooperation Facility helps identify and implement policy reforms which aid the transition to market economies. This includes reforming investment laws, laws on

²⁴ Interest rates are generally based at the six-month LIBOR plus a spread of three to six percent. The maximum loan term is twelve years with a grace period not to exceed five years. *The IDB Group and the Private Sector*, Washington, DC: IDB, 1996, p. 4.

²⁵*Inter-American Investment Corporation Annual Report 1995*, Washington, DC: IIC, 1996, p. 2.

²⁶The IIC usually sells off its shares once a project has matured. *The IDB Group and the Private Sector*, Washington, DC: IDB, 1996, p. 4 .

²⁷See, for example, *The Multilateral Investment Fund: Building the Private Sector in Latin America and the Caribbean*. Washington, DC: IDB, 1996 and *Multilateral Investment Fund Report 1995*, Washington, DC: IDB, 1996.

intellectual property, commercial laws, tax systems, labor laws, and laws to protect the environment.²⁸ The Human Resource Facility provides grants to governments or education institutions to help develop the human resource base needed for an expanded private sector.²⁹ It provides finance for the training of workers who may be displaced as governments reduce public expenditures or privatize state-owned industries.³⁰ Lastly, the Small Enterprise Facility provides loans and equity investments to micro-enterprises. This facility also offers assistance to small businesses on such topics as financial services, technical training and technology transfer.

The IDB also created a new Private Sector Department in 1994. This Department provides long-term financing without government guarantees for private infrastructure and public utility projects.³¹ Financing is generally provided on commercial terms and maturities can range up to twenty years. These loans can represent five percent of the IDB's annual portfolio.³² The Private Sector Department has been especially active in promoting private investment in those services,

²⁸*Agreement Establishing the Multilateral Investment Fund*. Washington, DC: IDB, 1992, p. 6.

²⁹*Agreement Establishing the Multilateral Investment Fund*, Washington, DC: IDB, 1992, p. 6.

³⁰Projects financed through this facility are expected to utilize private sector institutions as executing agencies and service providers. This is designed to transfer responsibility for human resource development from the public to the private sector. *Inter-American Bank Annual Report 1995*, Washington, DC: IDB, 1996, p. 36-37.

³¹*Report of the Eighth General Increase in the Resources of the IDB*, Washington, DC: IDB, 1994, p. 44.

³²IDB resources are designed to support rather than substitute for private investment. The Bank's participation in a single project is limited to \$75 million or twenty-five percent of the project's total cost, whichever is lower. *Lending for Private Sector Operations*, Washington, DC: IDB, 1995, p. 3.

(such as energy, transportation, water supply, waste management and telecommunications), which have traditionally been provided by the public sector.³³ The Private Sector Department also established a Guarantee Program in 1995 to mitigate selected risks of commercial banks and institutional investors when they extend loans to private projects. By reducing the risks to banks and investors, the IDB hopes to enhance private sector access to funding.³⁴

The IDB's new private sector orientation is also reflected in the introduction of a "policy based lending" program in 1990. This program is designed to promote market oriented reforms in specific sectors. Loans are only granted after recipient nations agree to alter sectoral policies which are deemed inimical to growth and create an environment which is more "private-sector friendly." The IDB is authorized to provide up to twenty-five percent of its loans for sectoral adjustment.³⁵

The IDB's policy-based lending program places particular emphasis on the privatization of state-owned enterprises.³⁶ Latin American nations are also encouraged to open up their economies to global market forces. This includes reducing barriers to foreign goods and promoting the production of exports over domestic consumption. It also entails increasing incentives for foreign

³³Five loans worth \$146 million were approved in 1995 through the IDB's Private Sector Department. The operations included electricity generating projects in Costa Rica, Honduras, and Mexico and an energy transmission and port terminal project in Argentina. *Inter-American Bank Annual Report 1995*, Washington, DC: IDB, 1996, p. 14.

³⁴*Guarantee Program*, Washington, DC: IDB, 1995, p. 3-5.

³⁵The IDB's policy-based lending is outlined in greater detail in S. Please, *Sectoral Adjustment Lending and the Inter-American Development Bank*, Washington, DC: IDB, Occasional Paper Number 1, 1989.

³⁶See Manuel Sanchez and Rossana Corona, (eds.) *Privatization in Latin America*. Washington, DC: IDB, 1993. The Multilateral Investment Fund also provides financial and technical assistance for privatization while the Bank's Private Sector Department supports businesses which have recently acquired privatized government operations.

direct investment. Member nations are called upon to extend legal protections for foreign investors and to create more efficient financial markets by improving supervision of banks and security markets, removing entry restrictions to capital markets, and liberalizing credit and interest rates. The Bolivar Program was established in 1992 to help match foreign partners for joint investments in Latin America.

The overall objective of the IDB's new programs is to reduce the role of the state in Latin American economies.³⁷ IDB officials argue that the production and distribution of goods and services should be principally determined by market mechanisms. This will improve the efficiency and competitiveness of Latin American economies. Although the adjustment process may be difficult, these nations will ultimately be in a much stronger position to realize sustained economic growth and development.

Although the IDB's private sector initiative may have contributed to aggregate economic growth, it is important to consider the distributional effects of Bank policies. Up to this point, the benefits of economic growth have flowed to a fairly narrow segment of the population. Few of the benefits of this growth have actually accrued to the poor. In fact, poor and working class people throughout Latin America have often been adversely affected by these reforms.

Clearly, the benefits of privatization have been unevenly distributed. On the one hand, well-connected private investors have realized enormous profits by purchasing public corporations at substantial discounts. At the same time, privatization has led to a significant loss of public sector employment. Many government workers have lost their jobs as state payrolls are cut or the managers

³⁷*The IDB Group and Private Sector Development in Latin America and the Caribbean: Report by the High Level Advisory Group on Private Sector Development: Washington, DC: IDB, 1993*

of newly privatized companies streamline their work forces. Those who have retained public sector employment have witnessed a significant deterioration in their wages.

Trade liberalization poses a similar dilemma. Free trade tends to advantage large landowners and export-oriented entrepreneurs who gain wider markets for their products. At the same time, small landowners are displaced as production of cash crops for export replaces the production of staples to meet local needs and the best lands become more fully concentrated into the hands of a small group of local and foreign exporters. Small scale artisans are also displaced by an influx of mass produced consumer goods.

Foreign investment has also intensified inequalities within Latin American. Such investment tends to create small capital intensive export enclaves, largely cut off from other sectors of the economy. The benefits of this enclave accrue to only a fairly narrow elite with direct ties to the transnational corporations. Local businesspeople, for example, can benefit from joint venture arrangements or supply contracts. In addition, professionals and skilled laborers find expanded employment opportunities with foreign corporations, often at significantly better wages and benefits than they previously enjoyed. Once again, however, the benefits of foreign direct investment largely bypass the poor. Moreover, while some new manufacturing jobs are created, it is important to consider the nature of this employment. The *maquiladoras* presently operating in Mexico and Central America are notorious for low wages, poor health and safety conditions, long working days, forced overtime, and the use of child labor. Workers attempting to organize in these assembly plants are frequently harassed, threatened or fired. Overall working conditions have deteriorated as governments compete with one another to attract foreign investors.

The Bank's new programs undermine grassroots development and popular empowerment. While the IDB's private sector initiative may promote economic growth, there is little reason to expect significant change in the lives of the region's poor. In fact, many of the reforms advocated by the Bank reproduce and intensify inequalities throughout Latin America.

RESOURCE MOBILIZATION AT THE IAF

The IAF's continued ability to promote grassroots development is also an open question. The Foundation has traditionally relied on two primary sources of funding, annual Congressional appropriations and the Social Progress Trust Fund.³⁸ Both of these sources are diminishing. Congressional appropriations were reduced thirty-seven percent during the past fiscal year as part of a general cutback in foreign assistance appropriations. Moreover, dividends from the Social Progress Trust Fund have been steadily declining for the past decade and will be completely eliminated by the year 2000.

This fiscal crisis is forcing the IAF to reassess its basic priorities. In recent years the IAF has made "resource mobilization" a major institutional strategy and program goal. Resource mobilization refers to generating support for grassroots development from local governments, philanthropic foundations and private businesses. As IAF resources decline, the Foundation hopes to help grassroots organizations gain greater access to alternative sources of support. This reorientation is also driven by the belief that to "scale up" and be sustainable, development

³⁸This fund receives repayments for Alliance for Progress loans made during the 1960s. The IAF has access to a percentage of those repayments each year for support of projects in the country making the repayments.

organizations must mobilize more resources from their own public and private sectors and lessen their dependence on foreign donors.³⁹

It is important to note that “resource mobilization” is not a completely new strategy for the IAF. The Foundation has always viewed itself as a “gap” funder and stressed the importance of other forms of support. As the Foundation’s most recent Annual Report states,

...leveraging local and international funds has always been important, but originally the approach was passive, encouraging grantees to take the initiative to find counterpart support. The IAF has now assumed a more pro-active stance to involve northern funders in the support of indigenous NGOs.⁴⁰

The IAF hopes to form strategic alliances with foundations and the business community throughout the region to maximize the impact of resources for grassroots development.⁴¹ This new emphasis on developing co-funding partnerships for grassroots development is designed to help move the IAF toward its goal of more decentralized project funding and help NGOs reduce their dependence on international sources of support.⁴²

The IAF has realized some early successes with its resource mobilization efforts. During the past three years, the IAF entered into thirty-three agreements with other donors, both international and local, to co-finance projects valued at \$14.4 million.⁴³ The IAF signed a three year, \$800,000 agreement with Fundacion Social in Colombia to create a decentralized in-country fund to support

³⁹Inter-American Foundation, *95 in Review*, p. 8.

⁴⁰Inter-American Foundation, *Grassroots Development*, Vol. 19, No. 2, 1995, p. 4.

⁴¹See Inter-American Foundation, *94 in Review* p. 4, and *95 in Review*, p. 8.

⁴²Inter-American Foundation, *Grassroots Development*, Vol. 19, No. 2, 1995, p. 22.

⁴³The IAF contributed \$5.6 million while other donors contributed \$8.8 million. *Grassroots Development*, Vol. 19, No. 2, 1995, p. 9.

grassroots development, as well as set up a Colombian center to promote philanthropy. Cooperative agreements with two private foundations in Colombia - Fundacion Corona and Fundacion Antonio Restrepo Barco - are financing small-scale, sustainable production projects in the most impoverished regions along the Atlantic coast and in low-income urban neighborhoods.⁴⁴ A matching grant agreement was concluded with Dividendo Voluntario para la Comunidad, a membership organization of over 380 Venezuelan businesses, to create a small-projects fund and co-sponsor activities that promote social responsibility and philanthropy in the private sector. A cooperative agreement with Peru 2021, an association of Peruvian businessmen, established a pilot fund to encourage philanthropic activities and innovative small-enterprise development throughout Peru. Similar initiatives in co-financing and partnerships have been set up in Argentina and the Dominican Republic.⁴⁵ INVERTIR was formed by IAF and four Mexican NGOs to channel technical and financial assistance to grassroots organizations involved in coffee production, community forestry, and sustainable agriculture.⁴⁶ The MacArthur Foundation has provided \$300,000 to three IAF-supported Mexican peasant federations working on a community forestry program.⁴⁷ Under an agreement with Venezuelan state oil company PDVSA, the company has contributed \$1.4 million to thirty-five grassroots organizations. The IAF has also entered into a number of pilot cooperative agreements with private foundations to create matching funds on a one-to-one basis for larger-scale investments in grassroots development. These agreements typically provide for the staff of partner

⁴⁴Inter-American Foundation, *95 in Review*, p. 12.

⁴⁵Inter-American Foundation, *Grassroots Development*, Vol 19, No. 2, 1995, p. 22.

⁴⁶Inter-American Foundation, *95 in Review*, p. 12.

⁴⁷*Grassroots Development*, Vol. 19, No. 2, 1995, p. 11.

organizations to be trained in the IAF's methodology of project analysis, monitoring, and evaluation so they can eventually administer and expand these locally based development projects.⁴⁸

The IAF's current work in the area of resource mobilization is important in a number of respects. This new approach allows the IAF to transfer its twenty-five years of experience to other donors. By reaching out to other groups, the IAF is able to expand the impact of its work. This initiative also helps bring NGOs in direct contact with alternative sources of financing to offset diminishing levels of foreign aid and allows these organizations to broaden their local base of support.

At the same time, reorientation of the Foundation's work toward resource mobilization could jeopardize its basic commitment to grassroots development. The IAF has prided itself on supporting the work of local NGOs. As outlined above, indigenous groups are responsible for the identification, design, and implementation of development projects. This *bottom-up* funding approach makes the IAF unique among development institutions. By seeking out the resources of foundations and private businesses this basic philosophy could be jeopardized. Rather than funding projects which are controlled by grassroots groups, the IAF may find itself altering its work to meet the agenda of these foundations and corporations. Projects design could shift from the needs of grassroots groups in Latin America to the priorities of these grant-making institutions.

CONCLUSION

This paper has considered the extent to which the Inter-American Development Bank and the Inter-American Foundation are structured to promote grassroots development. While both

⁴⁸Inter-American Foundation, *95 in Review*, p. 12.

institutions publicly support grassroots development, they employ markedly different processes for identifying, designing and implementing development projects. These differences highlight the relative advantage of the IAF in promoting non-governmental organizations and popular empowerment. The continued ability of both institutions to promote grassroots development is currently an open question. The IDB's private sector initiative and the IAF's new emphasis on resource mobilization undermine both institutions commitment to popular empowerment.

Genuine and sustainable development ultimately requires challenging societal inequalities and empowering people at the grassroots. Latin America's urban and rural poor must achieve a greater degree of power over their lives and the ability to direct the development process in their interest. Maintaining a basic commitment to grassroots development and popular empowerment will be the greatest challenge for both the IDB and the IAF in the years to come.

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