

## THE SHIFTING BALANCE AMONG STATES, MARKETS & NGOS

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Around the globe and not least in Latin America, society's institutions -- states, markets, and civil society -- are struggling to keep up with change. Throughout modern history, improvements in transportation and communication technology have expanded markets, connected peoples, and changed the role of the state. Now, as the millennium ends, dramatic advances in communications technologies have unleashed powerful forces of economic globalization (Carnoy et al. 1993). Markets have opened up to foreign investment; financial markets are increasingly interdependent; and multinational corporations shop the world to find the best labor market for each stage of production. The role of the state, after some retrenchment, is under scrutiny (World Bank 1997).

The relationship between states and markets in Latin America has changed profoundly in the last twenty years. The Latin American state moved from a position of strength to one of utter weakness during the debt crisis of the 1980s. In its aftermath, the market -- long in bondage to state controls -- broke free and the private sector ascended as the expected savior. But, while the economies of Latin America are growing again, the private sector has yet to generate the anticipated increases in employment and improvements in living standards for the region's poor. Thus, Latin America's leaner states and liberalized markets still face growing pains.

Meanwhile, institutions of civil society -- including nongovernmental organizations -- have also undergone revolutionary growth and change in Latin America and around the world. Scholars and policymakers have called attention to the rise of global civil society (Mathews 1997, *Our Global Neighborhood* 1995) and the global associational revolution (Salamon 1995), referring primarily to the tremendous growth in numbers and influence of nongovernmental organizations.

The relationship between the state and civil society in Latin America has likewise undergone dramatic change. Between 1978 and 1994, fifteen of the twenty countries in Latin America turned from authoritarian to democratic regimes. Only Cuba remains under dictatorial control. Indigenous nongovernmental organizations funded by Northern donors have played active roles in this transformation process -- both responding to change and catalyzing it: engaging citizen participation, providing services the state could not, and absorbing international funds which shunned repressive or weak states.

With a newly liberal private sector welcoming foreign investment, democratic governance taking hold, a burgeoning NGO sector fed by international donors, and revolutionized communication systems, Latin America faces the next millennium with many new political and economic spaces: spaces for new relationships and forms of participation, spaces for innovation in the provision of public services. New institutional fabrics, with strong ties to the global community, are being assembled in response to these opportunities as various parties pursue their self-interest and as civil society, private business, and public sectors attempt to address modern problems. As participants in a changing balance among states, markets, and civil society, nongovernmental organizations -- NGOs -- have both responded to and catalyzed change in a newly globalizing world order.

NGOs play a fascinating role in the changing balance among states, markets, and civil society because NGOs are both political and economic entities. Nongovernmental organizations, as implied by the name, are *not* of government; they are also *not* for-profit. For purposes of this study, they *are* independent organizations which receive outside funding to support either staff, programs, or both -- in effect, they are *not* purely voluntary. Further, the NGOs discussed here are based in either the North or the South and engaged in activities related to sustainable development, including advocacy, research, and service provision; and they work in fields such as relief, health, human rights, agriculture, and environment. Thus, while NGOs are nongovernmental, they are frequently very much engaged in political life and may work in partnership with government; and while they are nonprofit, they may compete with for-profit consultancies and service providers.

Civil society, of course, is a much broader term -- too broad, perhaps, to define precisely. Here civil society is used loosely to mean the space where people interact. It includes the realm of "voice" (Hirschman 1970) and that of collective action. Governments participate in civil society, as do private businesses, and but neither encompasses civil society. In addition to NGOs, other institutions of civil society include voluntary and membership organizations, professional associations, and grassroots groups.

This paper tries to shed some light on the changing balance of states, markets, and civil society in Latin America, focusing on the rise of the NGO sector. The first two sections overview the economic and political change in Latin America over the last fifteen to twenty years, and the third section describes the growth of an indigenous NGO sector, funded by foreign donors. From quiet beginnings in the 1950s and 1960s, NGOs exploded onto the scene in the mid-1980s in the midst of the economic and political transformation. Section four proposes that NGOs should be viewed as part of a process of globalization of civil society with two basic political-economic roles -- to provide international public goods and to participate in global civil society.

## **1. States and Markets Realign**

The economic trauma in Latin America during the 1980s was enormous. The debt crisis began in August of 1982 when Mexico declared its inability to meet foreign debt obligations. Latin America had grown rapidly from 1970 to 1980 -- real per capita growth averaged 3.5 percent per

year (IDB 1997a: Table B-2). This growth was financed by heavy borrowing from commercial banks: from 1975 to 1982 long-term foreign debt increased almost four times. In 1982, total external debt was \$333 billion (Edwards 1995: 17). Oil profits, funneled through the international financial community in the 1970s, had expanded dollar reserves and encouraged liberal lending to developing countries. While at the time the loans were made it was clear that further loans would be required to pay them off, Latin America's sudden inability to service debt meant that virtually no further loans were forthcoming after 1982 (Sachs 1989).

Latin America got caught by a sudden change in global financial conditions, and the poor response policies exacerbated the crisis. Beginning in 1980, both the United States and the United Kingdom tightened monetary policy to fight inflation under Reagan and Thatcher. Interest rates rose and a worldwide recession resulted. With the recession came lower commodity prices for Latin America's exports. Meanwhile, debt obligations on loans, made at variable interest rates, rose as interest rates rose. And, as high U.S. interest rates attracted international investment and strengthened the dollar, speculation eroded the value of Latin currencies. Soon, coming up with the dollars to service the loans, now at much higher interest rates, became impossible (Sachs 1989). Efforts to maintain exchange rates only resulted in currency speculation, capital flight, further exchange rate devaluation, and spiraling inflation.

Poverty and hardship characterized the decade. Economic growth in the region came to a halt as countries struggled to make payments. Between 1980 and 1983 real per capita GDP fell by almost 10 percent on average in Latin America (IDB 1997a: 52). Not until 1990 did the situation turn around for the region as a whole. Some countries suffered sooner and others later, but none escaped the ravages of the 1980s. The bitter medicine of the IMF required shrinking public sector services to address the public deficit, eliminating price controls (on subsidized food and transportation, for example), and liberalizing exchange rates. The poor took the hardest hit. Real wages dropped by close to 50 percent, and in some countries -- Brazil, Mexico, Peru, and Venezuela -- the drop was even greater (IDB 1997a: 38). Poverty levels increased from under 25 percent of the population in 1982, to 35 percent in 1990 (IDB 1997a: 41). Measures of inequality worsened.

Nevertheless, towards the end of the 1980s, it became clear that those who took the bitter medicine early (like Chile and Mexico) were stabilizing their economies and starting to recover; soon, free market reforms swept the region. Opening markets to trade was an early priority: average tariffs on imports were reduced from 42 percent in 1986, to under 14 percent in 1995; maximum tariffs fell from 84 percent to 41 percent; exchange rates were allowed to float freely; and free-trade agreements were pursued throughout the hemisphere (IDB 1997a: 42-43). Credit and financial markets were likewise liberalized, and foreign investment was ushered in. Stock markets grew as portfolio investment swelled. Privatization of state enterprises also attracted foreign investors. Mexico privatized assets worth almost 12 percent of GDP (US\$ 27 billion) between 1988 and 1998; Argentina privatized about 8 percent of GDP (US\$ 18 billion) over the same period. Only a few countries have yet to initiate privatization programs.

The reforms have dramatically changed the relationship of the public and private sectors in

Latin America. The private sector and market forces have been unleashed to pursue economic growth, while the public sector has downsized and pursued macroeconomic stability. Other government functions have been passed back to the market or in some cases to NGOs.

Essentially governments in Latin America have achieved macroeconomic stability, but they have yet to report convincing progress for the poor. Inflation rates are now under control and public sector deficits have been nearly erased. Economies are growing again, but the growth rates are disappointing given the magnitude of the reforms. The recovery in real wages has been modest and the poverty rate still hovers around 35 percent (IDB 1997a). Thus governments are still struggling to address social needs.

## **2. Democratization of the Latin American State**

With incredible force, over the same economically traumatic decade of the 1980s, democracy swept Latin America. In the 1960s and early 1970s, military dictatorships -- some reformist but many repressive -- had become the rule in Latin America. Of the twenty countries south of the Rio Grande generally considered Latin America, only four had democratic regimes in 1975. After 1994, Cuba alone remained under dictatorship. In country after country, democratically elected leaders came to power.

Those four that managed to avoid authoritarian regimes in the 1970s are Colombia, Venezuela, Mexico, and Costa Rica. Colombia has a century-old tradition of democracy with only two successful military coups. From 1958-74, a bipartisan coalition government, the National Front, shared power, as the presidency alternated between the two traditional political parties. In 1974 the National Front ended, and since that time, despite the threats of guerrilla insurgents and drug dealers, Colombia has maintained democratic elections (Kline 1990). Venezuela, by contrast, began the twentieth century with the long and brutal dictatorship of Gen. Juan Vicente Gómez (1908-1935). Thereafter, experiments with democracy alternated with dictatorships, but in 1958 Venezuela made a successful and lasting transition to democratic rule (Myers 1990). Mexico's democracy is still quite limited, but its civilian one-party state has provided stability for over 70 years (Levy and Bruhn 1995). Costa Rica has the most liberal democratic traditions of the four. Political parties were organized in the early 1900s, and political conflicts between the left and the right brought the country to civil war in 1948. The new constitution of 1949 abolished the military and has provided the basis for democratic governments ever since (Seligson 1990).

The Dominican Republic is debatably a fifth democracy to survive the 1970s, beginning with the election of the U.S. supported Presidential candidate, Joaquín Balaguer, in 1966. But Balaguer had served as one-time vice-president during the thirty-year dictatorship of Rafael Trujillo, and twice the presidency was returned to Balaguer with elections generally considered fraudulent. Thus, most would date the advent of democracy to 1978 when power was peacefully transferred to the opposition candidate Antonio Guzmán (Betances and Spalding 1997, Sanchez and Jesuit 1997).

All fifteen of the other countries in Latin America were under authoritarian regimes in 1978; but beginning in South America, in one country after another, military regimes withdrew and democracy took hold. Military rule ended in Ecuador in 1979, and in Peru in 1980. Somehow, these and other fragile democracies survived the desperate economic trials of the 1980s. The case of Bolivia is particularly poignant. Military regimes ruled Bolivia from 1964 until 1982. During the next three years the newly elected Hernán Siles presided over the worst hyperinflation to ever hit Latin America. Then, as described by Gamarra and Malloy (1990: 359), "At age seventy-eight, Víctor Paz Estenssoro returned to the presidency in 1985 for the fourth time since 1952. His return to the presidency was dramatic. . . Paz stabilized the economy and established the basis for the short-term survival of political democracy in Bolivia."

The two largest economies in South America, Argentina and Brazil, also made the transition to democracy at the height of the debt crisis. Argentina experienced a particularly high level of political violence and repression in the 1970s and indeed had had constant political turmoil since 1930 -- thirteen presidents were forcibly removed from office. The Argentine military government collapsed in 1983 after defeat in the Falklands/Malvinas War and the democratically elected Alfonsín came to power (Snow and Wynia 1990). In Brazil, twenty years of military rule ended with the election of Tancredo Neves by the Electoral College in 1985. Unfortunately, Neves died before he could assume power and the vice-presidential candidate Sarney became the new president (Lamounier 1995, Wiarda 1990).

Also in the Southern Cone, Uruguay and Chile both had long experiences with democracy before their military regimes began; they returned to democracy in 1985 and 1990 respectively. Sigmund (1990: 201) says that "Until the 1973 coup [Chile] was one of the oldest constitutional democracies in the world. Since 1833, with only two interruptions . . . its political system had followed regular constitutional procedures, with civil liberties, the rule of law, and periodic contested elections for a bicameral legislature and a directly elected president." This democratic tradition was broken in 1973 by the repressive regime of Gen. Augusto Pinochet which lasted sixteen years. The first large-scale privatization and free-market reforms also took place in Pinochet's Chile.

Paraguay has the shortest tradition of democracy in Latin America. Roett and Sacks (1990: 337) comment that, "Dictatorship is to Paraguay what democracy is to Sweden or Great Britain: normal, traditional, and -- for many Paraguayans -- comfortable." The 35-year dictatorship of Alfredo Stroessner ended in 1989 with a military coup. Subsequent elections in May of 1989 "were the freest in Paraguay's history, but they were still run by the same team that used to run Stroessner's phony elections" (Roett and Sacks 1990: 352). Since then liberalization has continued; the presidency was transferred in 1994 and again in 1998.

Civil wars, funded by Cold War politics, plagued most of Central America throughout the 1980s, and the arrival of democracy was accompanied by heavy U.S. support if not troops. Nicaragua was the first to shake their repressive authoritarian regime in 1979. The Somoza family had ruled Nicaragua since 1936 as leaders of the national guard established by the United States in the early 1930s to maintain order and fight the revolutionary Augusto Sandino. By the 1970s rule

under the Somozas had become increasingly violent. They were overthrown in 1979 by the Sandinista National Liberation Front (FSLN) which sought support from Cuba and the Soviet bloc. Rebel opponents known as "contras" waged a guerrilla war, with U.S. support from 1981-88, while the FSLN government "reacted by building a massive, Soviet-armed, counterinsurgency-oriented army" (Booth 1990: 493). U.S. pressure also won Honduran, Costa Rican, and Salvadoran cooperation against the Sandinistas. Eventually, the efforts of Central American nations led by Costa Rica and Guatemala resulted in a Central American peace accord in August 1987. Nicaraguan elections followed in 1990 with the victory of Violeta Chamorro (Booth 1990).

Honduras was a critical ally of the United States during Nicaragua's civil war. The Honduran military government of Gen. Policarpo Paz García, under U.S. pressure for democratization, called for constitutional elections in 1980 and presidential elections in 1981. It subsequently became the "recipient of an unprecedented amount of foreign assistance," and has successfully transferred power democratically since 1981 (Rosenberg 1990: 519).

Honduras had an early history of political party politics, but El Salvador was traditionally ruled by a few powerful families. Family divisions brought the military to power in 1932 and from that time until 1979 existed what Baloyra (1990: 490) calls a "tacit alliance between officers and the oligarchy." In 1977, the Carter administration suspended military aid to the increasingly repressive Romero regime; and, in 1979, in the wake of the Sandinista Revolution, the Salvadoran military deposed General Romero. Not until 1982 did U.S. pressure orchestrate elections. Baloyra (1990: 492) says that "Despite some controversy about their nature and relevance to [Salvadoran] politics, the Salvadoran elections of 1982-1988 had a positive impact in the process of transition." Nevertheless the civil war initiated under the Romero regime, between leftist guerrillas and right-wing death squads, persisted until early 1992.

Guatemala's presidency passed from military to civilian hands in 1986, after the first free elections in 20 years; but close ties to the military remained. Ebel (1990: 500) states that the military, "made it abundantly clear that they would not give up their control of the countryside, where they had successfully suppressed a guerrilla uprising, or accept an investigation into what the Kissinger Commission had termed 'the brutal behavior of the security forces.'" Peace accords, ending the 36-year internal conflict, between the government and the guerrillas were signed in December of 1996.

In Panama two decades of military rule ended in December of 1989 when U.S. troops were sent to capture Gen. Noriega and destroy his corrupt Panamanian Defense Forces, which had become heavily involved in drug trafficking and money laundering. With continued U.S. support, democratic elections were held and efforts to rebuild institutions continue.

The final Latin American country to hold democratic elections after long years of authoritarian rule was Haiti. The Duvalier regime began in 1957 and ended in February 1986 when a series of riots turned into massive anti-government protest. Baby Doc, son and heir of Dr. Francois Duvalier, fled to France with his family. Elections were held in 1987, but the elected leader was overthrown. December of 1990 brought the landslide electoral victory of Jean-Bertrand Aristide -- a radical

Roman Catholic priest. His presidency also fell, in September of 1991, to a military coup. Aristide was not reinstated until 1994, with U.S. military intervention followed by a UN peacekeeping force.

Certainly democracy remains fragile, particularly in Central America and Haiti, but also throughout the region. Rebel movement and economic conditions have severely challenged democratic rule. Peru struggled with the Shining Path insurgent movement and a sharply deteriorating economy throughout the 1980s and up until 1992 when President Fujimori closed down congress and suspended political liberties in what became known as the "autogolpe" (Sanchez and Jesuit 1996: 7). The following year the Guatemalan president also staged an "autogolpe." Paraguay still struggles to put authoritarian traditions behind, and in Colombia, drug related violence threatens democratic governance.

But despite its frailty in many countries, democratic progress has been significant and is deepening as donors, such as the IDB and the World Bank, encourage the decentralization of the state. The IDB (1997a: 99) reports that "only three countries in the region elected their mayors directly in 1980, 17 countries today use this form of local representation." As democratic political processes move into state and local governments, the power to tax and spend, and the responsibility to provide public services (like education, health, roads, and water) has also increased at the local level. State and local governments in 1995 accounted for 20 percent of total government spending -- up from 15.6 percent in 1985 (IDB 1997a: 99). With increasing decentralization, NGOs, and the grassroots organizations they work with, have become larger partners in development (Fisher 1998).

### **3. The Evolution and Growth of NGOs in Latin America**

By the time of the political and economic transitions of the 1980s, NGOs had already taken firm root in Latin America. This section briefly traces the forces that propelled their growth over the last fifty years. Early NGO beginnings date back as far as the great depression, in some countries, with Catholic Church charities. U.S. private voluntary organizations (PVOs), established to coordinate relief for World War II, began working in Latin America, together with the Catholic Church, by the mid-1950s. The Rockefeller and Ford Foundations funded early research NGOs; and USAID funded the Alliance for Progress of the 1960s, which, with its push for agrarian reform, helped to organize peasant groups. The repressive military regimes of the late 1960 and 1970s, encouraged increased funding of NGOs that provided alternative visions of economic development. The U.S. Inter-American Foundation also began supporting NGOs in the early 1970s, when increased funding began arriving from European and Canadian donors. In the 1980s, USAID shifted development funding from public sectors to NGOs, and multilateral donors also began to take notice of NGOs as efficient alternatives for providing public goods. In the 1990s, NGOs are playing a central role in a development strategy based on partnerships among members of civil society.

## **The Catholic Church, U.S. Philanthropy, and Popular Education**

The Catholic Church has been a pillar of civil society in Latin America since colonial times, and most early NGOs are rooted in this heritage. Before World War II, Catholic involvement with labor, student, and welfare groups was promoted under the aegis of Catholic Action (Lehmann 1990: 91). After the war, in the 1950s, charitable organizations -- CARITAS -- were established by the various Catholic dioceses to provide medicine, food, and clothes to those in need. U.S. PVOs, particularly CARE, Catholic Relief Services, and Church World Services, originally established to administer war relief, began working together with CARITAS after the war. The PVOs provided funding and, with the passage of Public Law 480 (PL480) in 1954, they also supplied surplus commodities. European and Canadian NGOs followed later in the 1960s (Smith 1990).

Many countries in Latin America also felt the early impact of the Rockefeller and Ford Foundations, which became active donors to research NGOs. Rockefeller began working in agricultural research and training in the 1940s. Ford began funding social science research in Latin America in the late 1950s and helped initiate many of Latin America's top private research NGOs in the early 1960s.

But while Northern PVOs and foundations provided funds, indigenous institutions and intellectuals provided the basic tenets of popular education, community action, and empowerment of the poor. The Catholic Church became increasingly committed to the poor in the 1960s and concerned with development as opposed to charity. In 1967 the Pope denounced the increasing inequalities between nations, including the inequities in trade relationships. This echoed the doctrine of anti-capitalist, dependency theory developed by Latin American economists in the 1950s. In 1968 Latin American bishops met at the Congress of Medellín and issued a document that marked the beginning of the Theology of Liberation. It pronounced the Church's "preferential option for the poor," urged the creation of base communities ("comunidades de base"), and condemned the extreme inequality within Latin America (Lehmann 1990, Bebbington and Thiele 1993).

The ideas of Paulo Freire, a Brazilian professor of social work, also fed into the ideology that surrounded the formation of many early NGOs. Freire promoted consciousness-raising ("concientizacão") -- popular education for the purpose of freeing the spirit of man. Freire published his ideas in *Education: the Practice of Liberty* in 1967 and they became popular throughout Latin America and in development circles generally. Lehmann (1990: 101) says that,

"Freire's ideas gained their special appeal from the fact that they cut across the conventional ideological barriers of the time: They emerged from technocratic developmentalism . . . ; they appealed to the lay Catholic movements . . . ; they appealed to Conservative politicians sponsored by USAID; and above all they carried a clear message for practical activity."

Freire was a Catholic himself and his ideas were taken up by the Basic Education Movement of the Catholic Church. His methods of teaching focused on training local community leaders to be the teachers. The movement became known as "basismo."



## **U.S. Bilateral Aid, the Alliance for Progress, and Rural Development**

Another early force which contributed to the organization and activation of peasant groups in Latin America was bilateral aid from the United States. Development aid from the United States began with Truman's "Point Four" program of technical assistance, which was passed into law in 1950. The land-grant model of research, extension, and education, successful in the United States, was adopted as an appropriate method of technical assistance in rural areas. U.S. land-grant universities and foundations, such as the Rockefeller Foundation and later Ford, made important contributions to the effort. Farmers' groups and cooperatives, women's groups, and youth groups (modeled after 4-H clubs) were promoted in Latin America as points of contact for technical assistance personnel (Ruttan 1996).

Castro's 1959 victorious socialist revolution in Cuban gave new meaning to North-South relations in the hemisphere and a shot in the arm to U.S. foreign assistance. Shortly after the revolution, Congress finally approved U.S. participation in the new Inter-American Development Bank (IDB). After Kennedy took office in 1961, U.S. development assistance was reorganized under the U.S. Agency for International Development (USAID) and the Alliance for Progress was launched. At the Punta del Este Uruguay Charter in 1961, the United States agreed to a 10-year, \$20 billion development effort in Latin America (Ruttan 1996). As shown in Table 1, U.S. funding to the region ballooned during the decade of the 1960s. In real terms funding to Latin America in 1964 was about nine times the 1955 level, and never again has it returned to those levels -- not even with the increased funding to Central America in the 1980s.

Agrarian reform was a centerpiece of Alliance for Progress efforts, and this meant continued focus on peasant organization and technical assistance for agriculture. Certainly, NGO development efforts in the 1960s were overwhelmed by USAID-funded government efforts -- not only in agriculture, but also in health and education. But the enormous attention devoted to peasant organization and education furthered the ideas of Paulo Freire and prepared the social infrastructure for the indigenous NGOs that later sprang up to work with these grassroots groups. While the Alliance for Progress began to run out of steam at the end of the 1960s, in many countries agrarian reform efforts continued. A new phase of "integrated rural development" was picked up in the 1970s by the IDB and the World Bank.

Table 1

**USAID Loans and Grants to Latin America and the Caribbean**

Fiscal Year	\$ millions	Fiscal Year	\$ millions
1952	101.5	1975	870.3
1953	95.3	1976	829.4
1954	146.1	TQ	187.4
1955	415.2	1977	618.0
1956	870.4	1978	631.3
1957	1078.1	1979	686.1
1958	684.0	1980	705.1
1959	697.1	1981	808.1
1960	656.3	1982	1069.0
1961	1750.0	1983	1440.1
1962	2566.3	1984	1446.3
1963	3001.3	1985	2183.7
1964	3738.1	1986	1643.7
1965	2732.4	1987	1792.9
1966	3189.4	1988	1327.5
1967	2376.7	1989	1376.8
1968	2586.3	1990	1795.0
1969	1382.3	1991	1365.2
1970	1899.7	1992	1104.8
1971	1349.7	1993	1071.8
1972	1304.7	1994	735.9
1973	1131.5	1995	573.9
1974	755.1		

Source: USAID, U.S. Overseas Loans and Grants, 1947-1994; USAID/LAC, 1995

Notes: figures are in 1990 constant dollars

TQ = Transitional Quarter

**State Repression and NGO Alternatives in the 1970s**

Dwindling USAID funds in the mid-1970s resulted in declines in government services for the poor and gaps for indigenous NGOs to fill. The heavy aid flows of the 1960s did not produce the desired results. Disillusion with top-down government-led development increased attention on the potential of indigenous NGOs to work with grassroots groups. The search for alternatives produced the creation of the Inter-American Foundation in 1969. The IAF was expected to support innovative approaches to development and bring back lessons learned to donors. It was also expected to elicit participation from community organizations among the poor. The IAF began working with indigenous NGOs in Latin America 1971, under a board of directors with representatives from both

the public and private sectors. Its work was conducted quite independently from USAID efforts. In 1973, Congress also encouraged expansion of PVOs as conduits of U.S. foreign assistance.

Vernon Ruttan notes that initially the IAF "was characterized by a mandate and a degree of operational autonomy that were highly unusual, if not unique, among U.S. government entities" (Ruttan 1996: 242). The IAF worked outside of normal government-to-government channels and was not controlled by State Department or USAID policy priorities. It sought social and institutional development not merely economic growth. Perhaps most importantly, the IAF responded to the needs of community organizations, rather than imposing initiatives from the outside.

Conservative elements in the United States were concerned about IAF activity. A 1978 Heritage Foundation investigation "grudgingly acknowledged the unique role of the foundation" (Ruttan 1996: 243-244). Although the research failed to establish evidence that the IAF supported groups with communist connections, it warned against unwittingly doing so. The Reagan administration moved to control the IAF board but, according to Ruttan, was unsuccessful in diverting the IAF from its original mandate.

The shrinking USAID presence in Latin America was filled in part by an increase in ODA from Europe and Canada, although most of Latin America's bilateral aid in the 1970s still came from the United States (OECD 1974, Table 74). Private aid from Europe and Canada also expanded, as governments from Europe, Canada channelled more resources to Northern NGOs. European foundations also increased activities as expanding European economies generated increased wealth. The European donors and governments were more leftist in orientation than the U.S. and tried to distance themselves from the image of the U.S., tarnished by the Vietnam War (Smith 1990).

The military governments that came to power in the late 1960s and early 1970s caused a flight of intellectuals and political leaders to NGOs. Brazil came under military control in 1964 and the Southern Cone countries of Chile, Uruguay, and Argentina followed. In countries where military command already existed, control was tightened. Many of the regimes were quite repressive and ousted their opposition from public agencies and universities. In reaction to the repressive regimes, foundations like Ford shifted resources away from public universities and toward private research NGOs, which grew staffed with social scientists purged from public universities. Smith (1990: 236) reports that "the Ford Foundation alone [donated] \$3.5 million to support eleven private research centers in Argentina, Chile, and Uruguay between 1975 and 1978." The research centers provided asylum, useful work, and frequently connections to grassroots organizations. International governments reluctant to support the regimes also shifted funding to NGOs.

The NGOs of the 1970s provided services the state was not providing and they were frequently at conflict with the state. According to Smith (1990), almost all of the funding for indigenous NGOs during this period came from abroad. But Liberation Theology, volunteer efforts, and grassroots groups provided the energy. NGOs were established throughout Latin America to provide legal services for human rights violations with funding from church-based NGOs in Europe and Canada. Some of the European funding came with leftist intents of fundamental social and

political change. USAID funding was more reformist or in some cases counter-revolutionary, and the Inter-American Foundation attempted to respond to grassroots demands rather than imposing a political agenda.

### **Political and Economic Transitions of the 1980s**

By the 1980s, the entire donor community was getting into the act with NGOs -- particularly USAID. The Reagan administration came into power in 1981 and outlined "four pillars" of development assistance. Two of the four were policy dialogue and technology transfer. The other two were institutional development, which involved reducing the central power of the state and encouraging NGOs to step in, and private sector development, which meant enlarging the role of the private sector in solving development problems. Meanwhile, Congress required in 1981 that 13.5 percent of development assistance be channeled through U.S. PVOs (Ruttan 1996: 122, 228). This money is typically passed on to indigenous NGOs. As later case studies show, however, the shift of USAID emphasis from the public to private sector was most apparent in USAID in-country operations.

The Central American and Caribbean region was also a priority area for the Reagan Administration. As shown in Table 1, USAID assistance to Latin America, after falling in the mid to late 1970s, rose dramatically in the 1980s and most of this aid was targeted on Central America and the Caribbean. In 1981-82 Latin America and the Caribbean absorbed 12 percent of the ODA portfolio from the United States; in 1985-87 this figure was 20 percent (OECD 1994: Table 38). During the mid-1980s, only a few countries in South America -- namely Bolivia, Ecuador, and Peru -- received significant amounts of U.S. assistance. In 1985, for example, 89 percent of USAID loans and grants to the Latin American region went to Central America and the Caribbean (USAID LAC).

Thus conservative USAID-funded NGOs in Central America and the Caribbean exploded during the 1980s. Central America saw a strong new breed of NGOs allied with the right wing of the civil wars that infested the region. And as later case studies in this book will show, in Ecuador, Peru, and the Dominican Republic, new NGOs supportive of the private sector arose that rivaled the clout of state agencies in policy circles. The NGO community became increasingly complex, and former NGO enthusiasts looked skeptically at these modern powerful NGOs that were frequently far more closely allied with the state than had been the NGOs of the 1970s.

Meanwhile, Latin America was engulfed in an economic crisis of dramatic proportions, and the World Bank and the IDB also preached the virtues of reduced public sectors and looked to NGOs for more efficient provision of public services. Top-down development had enlarged the public sectors of Latin America without accomplishing its goal, NGOs had the reputation of reaching the grassroots with innovative solutions. Social funds, to mitigate the pain of economic adjustment, became one of the first innovations involving both NGOs in Latin America and these major multilaterals. The Social Emergency Fund in Bolivia began operation in 1986 and soon there were attempts to replicate it in Peru, Ecuador, and Central America. The funds were typically set up as

autonomous institutions providing funding to contractors and NGOs for the construction of social infrastructure and the delivery of emergency social programs.

Bolivia's Emergency Social Fund (FSE) operated as a semi-autonomous agency, skirting government bureaucracy and working directly with foreign donors on projects of economic and social infrastructure, microenterprise lending, and basic needs. The FSE funded 3,300 projects in four years. Private contractors built schools, health clinics, and water systems; and while employment generation was relatively low, the completed projects were a tangible sign of good faith during the economic crisis. NGOs worked alongside the public sector providing complementary services and accounted for 25 percent of funds spent and one-third of all projects funded (Sollis 1992). The social funds bought time for the structural adjustment programs to work and provided some employment and relief.

### **Civil Society in the 1990s Latin America**

The 1990s have ushered in a new era in Latin America on a variety of levels, and NGOs are finding their role in a new civil society. One of the biggest changes is the tremendous increase in private capital flowing into Latin America. Between 1990 and 1993 private flows increased eight times. Over the same period development finance fell by about one-third (OECD 1995: Chart III-1, p. 60). But economies had begun to grow, and newly democratic states faced the challenges of the decade with a new array of relationships and potential partnerships for development. Without a doubt the relationship with the international private sector is far more important than it has been in the past.

The drop in international development finance has certainly impacted NGOs, although many donors, including USAID, are still increasing the proportion of funding channeled through NGOs. Nevertheless, in real terms, from the 1980s peak in 1985 to 1995, Table 1 shows that USAID assistance to Latin America fell by about three-quarters. Thus, NGOs reliant on USAID funds have been forced to diversify.

Some of the slack has been picked up by multilateral funding channeled through the social funds. By the time Bolivia's FSE reorganized in 1991 as the Social Investment Fund (FSI), it had already become a model for nine other similar funds in Latin America. The funds are now found in most countries in Latin America; and although few can boast the popular success of Bolivia's FSE, donors have certainly found them useful. The IDB is the single largest contributor to Latin America's social funds. With over \$1.3 billion invested in the funds, the IDB has provided about half of their total external financing. The World Bank has providing an additional 25 percent, and USAID and the UN Development Programme have also been major players (Goodman et al. 1997, Siri 1996). World Bank and IDB documents promote social funds as indication of a new stronger working relationship with NGOs. A World Bank document calls social funds "one of the most accessible forms of World Bank financing for NGOs" (Malena 1997: 9). Nevertheless, most of the funding that flows through social funds in Latin America has gone to the private contractors that build the economic and social infrastructure -- the schools, health clinics, sanitation systems, and roads. Fewer projects are devoted to microenterprise lending and rural development; NGOs are more active in

these. On average, the World Bank estimates that 15 percent of total social fund disbursements flow through NGOs (Malena 1997).

But while multilaterals have used social funds to showcase a new, more participatory style, social funds have attracted a fair share of criticism as well as acclaim. Housed in modern buildings and staffed with professionals not subject to the salary caps in public-sector positions, the social funds, although generally efficient, can be flashy and elitist. Some have viewed social funds as a political shield, designed to lessen popular resistance to the structural adjustment reform (Arellano-López and Petras 1994). Others focus on the extent to which the funds have displaced public-sector social spending and allowed governments to abandon their responsibilities. "Funditis" is defined as a disease that afflicts weak governments, interested in attracting international funding but unable to effectively coordinate the efforts of a disorganized groups of social funds and NGOs.

Meanwhile new democratic governments and the entire aid community seem to have bought into the concept of the full participation of civil society in democratic governance and sustainable development. In practice this often means greater participation for NGOs. In 1995 the IDB established a new office, charged with *Modernization of the State and Civil Society*, based on the conviction that a "strong civil society requires a strong and effective state, and vice versa" (Reilly 1996: 8). The unit is providing technical assistance for governments at national, regional, and local levels designed to encourage greater citizen participation -- including the participation of entrepreneurs, NGOs, local governments, and community based organizations. Building democracy is also currently one of USAID's major goals. USAID is working with NGOs to insure that elections are conducted transparently, to strengthen civil society, and to implement judicial reform (USAID FY 1998 Congressional Presentation).

NGOs are now included in wide array of participatory policy processes. Bolivia, for example, in 1994 passed a Popular Participation Law that decentralizes governance to the municipal level and links municipal governments to grassroots organizations through a designated representative. Costa Rica, as part of an effort to modernize the judicial system, undertook, in 1993, a major process of national consultation that attempted to give voice to employees of the judicial system and other stakeholders in the community. Regional workshops, fora, and grassroots consultations were held throughout the country with the help of support committees. Colombia, in 1990, undertook constitutional reform with massive popular participation. The reform strengthened the legal system, transferred increased power and responsibility to citizens, and sought to fight corruption by increased accountability to the people (IDB 1997b). In keeping with the trend to decentralization and local level initiatives, the IAF is refocusing from funding NGOs to supporting broader local development initiatives involving local government, alliances of citizens, businesses, and NGOs (IAF 1998).

The information revolution has also strengthened NGOs. NGOs are information intensive, and as the costs of transmitting information fall, the productivity of NGOs can increase. The impact of the information revolution on NGOs in Latin America has only just begun. With economic reform and privatization, telecommunications in particular have attracted enormous interest --- in 1997, Latin America was anticipating a growth potential of \$10 billion annually in the telecommunications market

over the next five years (IDB & Together Foundation 1997). Under an *Informatics 2000 Initiative*, the IDB has organized a Civil-Society Task Force that seeks to further the use of information technology while strengthening civil-society organizations in Latin America. The task force has found NGOs to be leaders in introducing information technologies and has documented numerous ways that NGOs have used information technology, including desk-top publishing, fax, e-mail and internet, to network, share information, and reach a large constituency in their development efforts (IDB & Together Foundation 1997).

#### **4. NGOs in a New World Order**

As the globe shrinks, the demands on global civil society are growing. Advanced communication technology facilitates economic and political collaborations across borders that call for international civic input and institutions (*Our Common Neighborhood* 1995). Globalization means that the world's economies are increasingly interdependent. Thus the governance of international trade, labor, and finance fall in the lap of global civil society. Increasing demands are placed on intergovernmental institutions, such as the World Trade Organization and the International Monetary Fund. But a myriad of supporting professional and trade associations are expanding across borders. Increases in the human population and its level of economic development call attention to the shrinking natural environment and the increased need for international collective action to protect the global commons and to insure international security. Two World Wars marred the first half of this century and encouraged national governments to establish the United Nations and its associated intergovernmental institutions. The second half of the century, however, saw the rise of a wide variety of international NGOs dedicated to specific issues of international concern, such as Amnesty International and the World Wildlife Fund (Spiro 1995). These international NGOs have united the voices, energies, and financial backing of people around the world to address international problems.

Both intergovernmental and nongovernmental organizations engaged in addressing international problems are attempting to provide *international public goods*. Public goods, as distinguished from private goods, can be enjoyed by many at the same time. The benefits of international public goods are shared internationally; they include world peace, basic research, popular education, world health, and a healthy global environment.

Clearly international NGOs like Amnesty International and the World Wildlife Fund, belong to global civil society and produce international public goods; what is less clear to many, however, is the political-economic role of NGOs based in the South and funded by the North. This paper focuses specifically on Latin America's NGOs and claims that like international NGOs, Southern NGOs funded by Northern donors belong to global civil society and produce international public goods.

The role of Southern NGOs require special clarification, in part because these NGOs have suddenly exploded on the international scene in the last 15 years, and in part because Southern NGOs are frequently depicted as pillars of local civil society and forces of grassroots democracy (Clark

1995, Fisher 1998, de Janvry and Sadoulet 1993, Reilly 1995). Southern NGOs, and the grassroots organizations they support, are likened to the dense networks of civic associations that Putnam (1993) defined to be *social capital* -- a positive contributor to better governance in Northern Italy.

This vision of indigenous NGOs and local democracy is not accidental -- nor is it entirely misleading. Foreign donors such as the U.S. Agency for International Development (USAID) have explicitly worked through Southern NGOs with the intention of strengthening institutions for democratic governance (USAID 1994a). This paper supports the contention that Northern donors of Southern NGOs in Latin America furthered democratization. But the raging fires of grassroots democracy in developing countries are not purely indigenous; they are fanned with external funds directed at Southern NGOs.

Since the mid-1990s, scholars are increasingly circumspect about the role of Southern NGOs in civil society. Macdonald's research in Central America led her to question the effect of neoliberal NGOs on civil society (Macdonald 1995). Fowler (1998) likewise raises concern for the accountability and legitimacy of Southern NGOs that use international leverage in local political processes, but also notes their increasing influence in international circles. Edwards and Hulme (1996) blame official funding for weakening the legitimacy of NGOs and distorting their accountability.

Fisher (1998) is certainly not blind to the accountability and legitimacy concerns, but suggests that NGOs can work to avoid overreliance on a single donor or excessive domination by government. Bebbington (1997: 1756) suggests that shrinking aid levels in Latin America offer hopes of "rerooting civil society institutions back into their own societies . . . less distorted by the incentives and agendas fostered by foreign aid." Still, successful NGOs will always be accountable to their donors -- international donors, even a diversified set, will distort the activities of Southern NGOs.

The history of NGOs in Latin America demonstrates that they have certainly energized civil society in Latin; and they are also participants to a process of globalization of Latin America's civil society. NGOs funded by Northern donors are not democratic representatives of local civil society -- but they do participate in it and enliven it. Foreign donors intensify the voices of the membership of Southern NGOs -- many of whom have been marginalized from political processes. These members are clearly part of local civil society.

Particularly at the global and international levels, however, NGOs are building blocks in civil society. NGOs, their partners, and their networks enrich the basis of global social capital -- the fiber of international relationships, where mutual trust and understanding grow and the ability to cooperatively solve problems is fostered.

Domestic civil society has also been distorted -- but certainly no more than the Latin American business environment is distorted by foreign investment. In both cases the power of the foreign money may be offensive to some; but it brings with it new ideas, perspectives, technology, employment, training, and links to the global community.



## 5. Conclusions

The world is changing, and NGOs around the world are responding. The power of the international private sector has increased dramatically. States, on the other hand, have retreated as economic powers and have increased opportunities for democratic participation. States have also looked for private-sector alternatives to provide public services. International donors increasingly use NGOs to provide international public goods. All of this means that the political and economic spaces for NGOs internationally have grown enormously.

From an infancy that began fifty years ago, Latin American NGOs have matured into sophisticated and cosmopolitan partners in the development activities. A variety of forces, both indigenous and international, have fostered their growth. The Catholic Church has stimulated community development and has linked indigenous civil society to international charity. The Ford and Rockefeller foundations and other Northern foundations have supported the development of Latin scholars and have shielded them from repressive regimes. The efforts of the Alliance for Progress helped to organize the peasantry into active grassroots organizations.

The rapid emergence of NGOs in the last twenty has coincided with a political and economic environment also characterized by swift and radical change. In the process they have developed an enormous diversity of objectives and political viewpoints. Many NGOs are still closely connected to the Catholic church, while others are secular. Some are powerful advocates for the right, the left, the poor, or the environment; others are efficiently providing public services; others both advocate and efficiently provide public services. Some NGOs are close to grassroots groups, and others are close to powerful elites. Some NGOs are accused of opportunism, illegitimacy, and commercialism; while others are attributed greater indigenous authenticity. Still, almost all NGOs in Latin America receive substantial funding and other support from international donors.

Through NGOs, international donors have overtly influenced local politics. Yet as markets open, as democracy deepens, and as modes of communication multiply in Latin America, local and international processes have become increasingly intertwined in complex patterns. Latin America's civil society has undergone a process of globalization.

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