



Capable Partners Program Learning Agenda on Local Organization Capacity Development

Country Report Series

#5: Peru

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INTRODUCTION

As further described in Section II, this report is based on desk research, the materials collected and field work carried out in Lima and Tarapoto, Peru between August 9 and 30, 2012. It conforms with the outline provided by CAP for Learning Agenda reports. We wish to recognize the staff of the USAID Mission in Peru, particularly Miriam Choy of the Program Office, for the willing guidance and cooperation provided at key points in the process. And we are grateful to the many organizations and individuals who so generously shared with us their time and insights.

I. NATIONAL CONTEXT

During the last decade, Peru has stood out among developing countries for its sustained economic growth and success in reducing poverty. The Peruvian economy grew an average of 7% per year between 2004 and 2011, while income-based poverty declined from 58.7% to 27% in the same period. Although part of this record is due to high world prices for the country's minerals and other basic commodity exports, it is also attributed to an open market-oriented development path initiated in the early 1990s, with sound macroeconomic policymaking and active promotion of foreign investment.

This record has led Peru to be classified as a “High Middle Income Country”¹, and one to which foreign assistance should be re-examined. For some, including billionaire philanthropist Bill Gates, this means that Peru should no longer receive development aid from European countries such as Spain.² A number of donors have already pulled out of Peru or are scaling back their operations considerably, including British and Dutch agencies. For others, including USAID, the country still has numerous development challenges that merit external assistance, but of a distinct kind – related to strengthening local capacity to better use local resources.

One of these challenges is persistent social inequality, and the exclusion of important sectors of the population from basic services and opportunities. While coastal cities have seen rising incomes and First World consumption patterns, most residents of the Sierra highlands and Amazon jungle regions live in very poor conditions. Using a multidimensional approach that includes access to health care, water and electricity and other basic services, a recent study by the Universidad del Pacífico estimates that nearly 40% of the population remains poor, and up to 81% in rural areas,³ a situation that the new Ministry for Social Inclusion (MIDIS) was created to address. Access to justice and security are also limited to a minority, and Peru's indigenous communities are at the very end of the line.

A second challenge for Peru is making decentralization work. Governments are popularly elected at the regional, provincial and district level, and many have seen greatly expanded revenues and

¹ País de Renta Media Alta (PRMA). See APCI 2009: <http://www.apci.gob.pe/noticias/archivos/tendencias2009/01-cap-2009.pdf>

² <http://www.up.edu.pe/blogs/csanborn/archive/2012/03/03/from-charity-to-solidarity-bill-gates-and-peru.aspx>

³ http://www.up.edu.pe/ciup/SiteAssets/Lists/JER_Jerarquia/EditForm/E1%20Per%C3%BA%20de%20los%20pobres%20no%20visibles%20para%20el%20Estado-JULIO2012.pdf

political authority in the last decade.⁴ Important government functions and programs have been transferred in such areas as preschool and basic education, health and nutrition, and citizen security. Through a mechanism called the *canon*, the central government transfers half of all income tax paid by mining, oil and gas companies back to the localities where their operations are located (13 regions to date in the case of mining). Yet in many cases local politicians have great difficulty implementing these programs efficiently, and spending wisely the enormous rents pouring into their coffers. This leads to considerable waste, distortion of local economics, and fractious political competition over the spoils. Electoral rules that facilitate revocation of local authorities have also hampered governance.

Managing the country's natural resources, and regulating the extractive industries, are also critical issues on this agenda. Peru is a world leader in minerals exports, but the expansion of large-scale mining into new territories since the 1990s has also been a leading source of conflict. Minerals constitute 60% of Peru's exports, and 14.5% of GDP, the latter up from 5% a decade ago. The central government is increasingly dependent on the tax revenue this activity brings in, which today accounts for 25% of total taxes collected, and 78% of all income transferred to subnational governments also comes from these sources (canon and royalties from oil, gas or mineral extraction). Hence policymakers are anxious to push forward the more than US \$53 billion in new mining investments projected over the next few years.⁵ Yet many remote communities where mines operate have not felt the benefits of growth, and they have undergone unsettling changes in their natural environment, lifestyles and power structures. In fact, the highest levels of poverty and exclusion, and lowest levels of economic competitiveness, are in regions such as Cuzco and Cajamarca, where mining operations generate huge profits for the world's leading firms, but violent social conflicts have been recurrent.

Similar challenges are faced by the various departments that comprise the Peruvian Amazon. Treasured worldwide for its biodiversity, and home to diverse native ethnic groups, the Amazon is threatened today by expanding oil, gas and forestry operations and rampant illegal gold mining, as well as continued coca leaf cultivation for the global narcotics trade, an issue of longstanding concern to the U.S. and other Western governments.⁶

Most mineral exporting countries face similar social, economic and environmental challenges. Those with well established institutions, such as Canada, Australia and Chile, have been able to address these problems with greater national resolve and effectiveness. In the Peruvian case, these development challenges have been exacerbated by underlying social tensions and a persistent lack of institutional capacity. Historically, the State has not been oriented towards communicating effectively with citizens or delivering services to the majority of the population. There has not been a professional civil service, and government presence in rural areas has been minimal. Many factors explain this situation, including the predominance of authoritarian

⁴ Peru has 25 administrative Regions, 195 Provinces and 1833 districts, all of which have popularly elected authorities. For more details see: USAID y PERU ProDecentralización, *Proceso de descentralización: balance y agenda a julio 2012*. Lima: julio 2012. <http://www.prodescentralizacion.org.pe/index.php>

⁵ See: <http://infografiasdelperu.blogspot.com/2012/08/sendade-cobre-y-hierro.html> and <http://gestion.pe/economia/postergan-inicio-15-proyectos-mineros-us17000-millones-2011457>

⁶ See: "En 10 años el Perú ha perdido 15 mil hectáreas de bosque en la Amazonía", *El Comercio*, Saturday, August 25, 2012, p. A12. <http://elcomercio.pe/impresa/notas/10-anos-peru-ha-perdido-15-mil-hectareas-bosque-amazonia/20120825/1460446/?ref=qdn>.

regimes since Independence from Spain, pervasive racism and exclusion of the indigenous population, and the radical economic liberalization of the 1990s. However, today many agree that addressing this lack of capacity directly should be a top priority for a middle income country, and something with which strategic foreign assistance can help.

The liberalization of the 1990s was accompanied by reforms in key entities responsible for macroeconomic policy, such as the Central Bank and the Ministry of Finance, but it has taken much longer for Peru to focus on reforming those agencies charged with providing basic services or upholding justice. It was not until 2009 that the GOP created a National Civil Service Authority (SERVIR)⁷, to lead a process of recruitment and training of top-quality public managers for different levels of government (164 to date), and in 2011 new President Ollanta Humala announced the creation of a School of Public Administration, still on the drawing boards. In the past two years, important efforts have also been made to introduce Results-Based Budgeting in over 50 government programs. Yet many public sector institutions still lack the capacity to do strategic planning or evaluate progress towards achieving their goals. The newest ministries created to promote social inclusion (MIDIS), protect the natural environment (MINAM) and defend the cultural patrimony (Ministerio de Cultura), need special help.

The lack of institutional capacity in Peru does not imply a lack of human resources. Indeed, the country stands out for its high number of talented professionals, and its rich traditions of voluntary organization in the private sphere. Yet evidence gathered for this study suggests that many civil society organizations also have difficulty retaining sound leadership and ensuring sustained institutional capacity, exacerbated in some cases by scarcer international resources and financial uncertainty. These issues are discussed further in sections III and IV below. However, the results of this study also point to several ways in which donors – and the leadership of these organizations themselves – might help to improve local capacity, for assuming the array of development tasks facing a country in transition. These are discussed further in section VIII.

The Legal and Regulatory Framework for Civil Society

The Peruvian legal and regulatory framework is very flexible vis-à-vis nonprofits, and freedom of association remains a primary value. There are few significant restrictions on associational activity, including that of a political, religious or even economic nature.

Non-profits incorporate through the Public Registry as associations, foundations or committees. They are also required to register with the APCI (a government agency) if they wish to receive certain kinds of external technical assistance or funding. However, a court decision in 2006 stopped government efforts to make registration in APCI obligatory for all CSOs. So in theory one can set up an “*asociacion*” with a group of friends, draft a statute with some basic guidelines established by law, create an Assembly and have it elect the top management, and pretty much do what one wants with it after that.

There are also relatively few restrictions on CSOs that undertake for-profit activities for income-generation purposes, or on CSOs that engage in what might be considered lobbying in other

⁷ <http://inst.servir.gob.pe/index.php>

countries. While there are occasional crackdowns by authorities on a specific organization, little sustained effort is made to regulate these activities.

Non-profits in Peru are exempt from income tax under certain circumstances, but do have to pay sales taxes and other local taxes. There are some tax incentives for donors who give to CSOs, in the form of deductions, in some priority fields (education and culture, for example), but the regulatory issues in this case are stronger, given that Peru since the early 1990s has been trying hard to crack down on tax evasion and has a fairly powerful and effective tax authority, SUNAT. Requirements to register donors and beneficiaries with the SUNAT are in fact restrictive, although in the interest of transparency.

This recent report on Peru from the Council on Foundations gives a good summary:
<http://www.usig.org/countryinfo/Peru.asp>

II. METHODOLOGY

The research team was led by CAP/MSI Associate Director Joan Goodin and included Dr. Cynthia Sanborn, Director of the Research Center of the Universidad del Pacifico in Lima, and a research assistant who works with Dr. Sanborn, Alejandra Villanueva. The methodology employed for data collection and analysis included: a comprehensive documentary and website review of key public and private Peruvian institutions; consultation with USAID/IDEA and USAID/Peru personnel; development of interview protocols and an agenda for field work; and a field mission from August 9 to 30, 2012, including site visits in Lima and in the Department of San Martin in the Amazon region from August 15 to 18.

Interviews were conducted with a total of 34 persons in Lima and 20 persons in Tarapoto, San Martin. Care was taken to include interviewees representing all key areas of interest – NGOs and PVOs; national, regional and local government; business; consulting firms; networks; academia. Several community-based groups were interviewed in San Martin, including local women’s organizations and youth groups. Individual interviews and a group entry meeting were held at the Mission on August 10 with 10 staff members, including the Chief of the Project Development and Program Office, the Deputy Chief of the Program Office, the Regional Contracting Officer, two DLIs, and other staff members representing the Program Office, the Regional Legal Office, the Alternative Development program, and the Economic Development and Environment Office.

A debriefing took place on August 29 with the Acting Deputy Mission Director, the Chief of the Program Office, the Regional Contracting Officer, the Regional Legal Advisor and three other staff members. Participants in the debriefing were given a list of the organizations visited, an outline of this report, and a description of the various types of capacity development approaches found during this investigation. Preliminary recommendations were also discussed. In the final phase of the investigation, background and interview notes were compiled by team members, who carried out a participatory analysis of the data collected. This report was then drafted in accordance with the outline provided by CAP for the Learning Agenda.

III. FINDINGS ON CIVIL SOCIETY

As mentioned above, civil society in Peru is vibrant and diverse, but also fragmented and institutionally weak. A recent study by the National Statistical and Informatics Institute (INEI) identified over 180,000 legally registered private, nonprofit organizations, and many more operate off the books. Most of these are grassroots community organizations in low income neighborhoods, but they also include parent-teacher associations, non-profit schools and religious organizations.⁸ Among them are 1,619 registered NGOs that are eligible to receive foreign assistance, roughly the same as ten years ago, while the number of foundations has doubled in the last decade to 312. In recent years private companies, and especially large-scale mining firms, have created numerous nonprofit entities to operate or support social programs in their areas of influence.

In the 1980s and 1990s, when Peru was plagued by authoritarian rule, political violence and economic crisis, many NGOs emerged to assist the poor and vulnerable and to accompany broader social movements for human rights and democracy. Considerable amounts of foreign aid went to Peru during those years, and much of it was “movement” related, and lacking in stringent requirements in regard to institutional capacity or sustainability. As democracy returned and the Peruvian economy became stronger, this kind of aid became scarcer, and NGOs had to struggle to define new agendas and revenue sources, as well as to define their role in the broader sphere of civil society organizations (CSOs). Some of them have been quite successful, managing ambitious development programs and projects with international funding, working with government to promote common goals, or playing constructive advocacy roles. Yet even leading NGOs that have been longtime partners to USAID and other donors face persistent challenges to developing and sustaining institutional capacity.

The following section, based on over 50 interviews and review of related materials, discusses some of the leading advantages, and challenges, faced by CSOs today.

Government Views of Civil Society

We heard mixed reviews about government-civil society relations, but no one common view. Some former government officials stressed that donors were a bigger problem than CSOs because of their dispersion and lack of coordination. Also, most government officials work with consultants from the nonprofit sector. Others, such as the former head of PRONAA, had strong criticisms of NGOs, citing their lack of management skills. He felt that many development or anti-poverty NGOs cannot make the move from a “rights based” approach to a results-based one, with strategic planning and evaluation and such. But neither can the government, of which he was just as critical.

Under Fujimori (1990s) and also García (2006-2011) there was a lot more criticism of NGOs for ideological reasons, most of it involving “witch hunting” against human rights, environmental and indigenous rights organizations, who were all very critical of both governments. But under Humala there are numerous people from NGOs in public service, including ministers and other key officials who are from leading development NGOs and think tanks such as IEP (whose

⁸ <http://www.inei.gob.pe/web/NotaPrensa/Attach/13540.pdf>

former head is now leader of the new Social Inclusion Ministry), and the tone is different, not so critical. There are even cases like DEVIDA, where the head of the leading anti-drug NGO was recruited to lead that counterpart government agency.

For the most part, government distrust of CSOs is aimed at those that are watchdogs on government corruption and abuse of power. And that is to be expected.

Organizational Strengths

Passion and commitment. We were pleased to find that a considerable degree of passion and commitment to social change remains among the CSOs we visited. Despite greater competition for resources and changing political times, it was striking to note how many interviewees were strongly committed to human rights, environmental protection, good government or other goals.

Quality professional staff and collaborators. Peruvian CSOs stand out for the relatively large number of well-educated professionals, with technical expertise in key fields, who continue to work in non-profit activity, or who donate part of their time to CSOs even if they have moved on to other types of paid work.

Diversity of approaches. Peruvian NGOs take diverse approaches to development, which contributes to public debate and better policymaking. This includes a growing number of organizations that question Peru's renewed dependence on mineral extraction and promote better regulation of its environmental and social impacts.

National reach. Although there are still far more NGOs in Lima, today there are organizations working in all departments of Peru and on a broad range of issues.

Networking. Peruvian CSOs have considerable experience with creating networks and using them to advance common goals, though the main focus of such efforts has been external to the sector itself. For example, there are networks and campaigns promoting child welfare, human rights, women's rights and opportunities, education reform, and environmental conservation.

Public Policy work. In recent years, a number of activist NGOs have managed to shift from advocacy to policy analysis and proposals, and to consulting with the public or private sector. Some major charitable organizations have also expanded into research and advocacy for policy change, to address root causes of the problems they find in the field. In general, there is greater recognition of the importance of applied research and public policy work within this community.

For example, the Executive Director of PRISMA, which is one of the oldest, largest and most successful national NGOs, explained how they first worked on infant malnutrition, with research and program operations and central funding from USAID. In 1995, they received a USAID grant to create an integrated administrative system. For 10 years they did diarrhea monitoring. Then in 1996, they shifted to broader issues of nutrition, health, and urban microfinance. In 1992, with the adoption of the GOP's decentralization policy, they saw the need to train local officials for the management of their new program and budget responsibilities. With support from DFID, they trained 1,600 regional and local officials on programs related to health, child nutrition and other social programs. Today they have eight lines of work, 40 local offices, over 20 donors and a large pool of actively engaged volunteers. The CARE/Peru National Director also discussed a

successful campaign involving a number of NGOs to work on chronic child malnutrition that began in 2005 and involved establishing a baseline, collecting data over time, and working with all leading presidential candidates and parties. The result has been a significant reduction in child malnutrition.

The factors that appear to have contributed to the relative health of the Peruvian NGO sector include the following:

Weakness of parties and the state. Both public sector institutions and the political party system are relatively weak and unstable. So for years NGOs virtually replaced parties in functions such as recruiting committed professionals and organizers, developing programs and proposals, organizing campaigns of various sorts, and also channeling monies from various political donors into the political process.

A weak labor market for skilled professionals with “progressive” values. Peru has a strong and growing set of middle class professionals educated in top-rate private schools and universities. But until recently, professionals of a liberal to progressive bent found work in NGOs to be more satisfying and steady than government service, or private enterprise. This has changed a lot since around 2005, as more professionals have shifted to top posts in public service, and others are working with private companies like mining firms, in their social investment or community relations departments. Others are creating their own consulting firms and filling new niches in the market. This is mentioned in the summary of interviews with IEP, Prisma and others – challenges to recruiting and retaining trained staff in new market conditions.

Subcontracting with the State. The State itself has relied on larger NGOs to design, implement or evaluate public programs, especially in the social sectors. Though it also draws a lot on individual consultants working freelance, even though they were trained in NGOs.

External donors. There was significant external funding going to Peru for work on issues that are NGO-driven, such as human rights, social justice and democratic governance, from the early 1980s to the Toledo years (2001-2006). This includes funding from European leftist parties and religious organizations, as well as Ford Foundation, Open Society, and USAID. Longstanding charities based in Peru, such as Oxfam America, Oxfam UK and CARE, also shifted to a stronger focus on social justice, getting at “root causes” of poverty and promoting social change.

Organizational Weaknesses

Dispersion of talent and resources. This sector is divided into many small and weak organizations, many of which revolve around talented and forceful individuals who prefer to work without much institutional baggage, or who are unable to build the kind of staff and resources needed to scale up.

Strategic leadership. Related to the above, there are relatively few CSO leaders who are good strategists, able to envision and implement plans and mobilize staff to strengthen their organizations. Few leaders seem to spend much time thinking about the longer-term health of their organizations.

Management and OD capacity. Although passion, commitment and technical expertise abound, good managerial skills are in shorter supply. This includes people who can prepare and follow budgets, develop alternative funding sources to replace donors who depart, or do effective human resource development. Most of the NGOs we visited have professionals who are issue experts but know less about management or the range of skills related to OD.

In our interview with the head of the Chemonics PRA (poverty alleviation) program, he argued that there were no more than 10 organizations in Peru capable of administering large development programs of this type, with multiple donors, actors and operating sites. He cited two for-profit consulting groups (Macroconsult and Recursos), and larger NGOs like CARE, PRISMA and ADRA, with headquarters in Lima and branches in various parts of the country. As interviewees from CARE and PRISMA told us, they have often worked with smaller NGOs in order to help them manage funds and programs.

Boards and governance structures. Most NGOs in Peru are legally registered as “civil associations” and required by law to have an Assembly of members as their permanent governing body. The Assembly is required to meet at least once a year to make decisions and elect members of the Board (*Junta Directiva* or *Consejo Directivo*) from among its members. Few NGOs have boards with independent members or fixed terms, or governing entities that are actively involved in strategic planning, resource mobilization or management. There are no laws regarding conflict of interest in this sector and we found no NGOs that take this issue into account.

Impact evaluation. Although donors are increasingly concerned about impact evaluation, almost no NGOs incorporate this into their work in a systematic way. Most still tend to report results or outputs, not impact. Those that do evaluations tend to do them more for donors than as part of their own institutional priorities or management process. One of the NGOs visited, GRADE, reported significant experience and involvement in the field of impact evaluation, both within Peru and at the international level through the IDB and multilateral evaluation networks.

Fundraising. Most NGOs in Peru have project-based funding schemes, and diversification of foreign donors is their main method for seeking to cover core costs and achieve sustainability. Even longstanding organizations such as IEP and GRADE (discussed in section VI) do not have endowments or major capital funds and rely almost entirely on project-based funding streams, with a small core of senior members who are expected to bring in their own funding and also cover the rest.

Increasingly, NGOs also seek contracts with government agencies or large corporations, especially mining companies, for specific projects or services, even though those business sources may be incompatible with their own goals or activities. Few NGOs have strategies for defining and covering their operating costs adequately, or do fundraising for this purpose. And few attempt to raise revenue from their own members or in-country donors.

Transparency and accountability. Few NGOs have mechanisms to assure transparency in their work and with diverse stakeholders. Few publish their annual reports, report their funding sources or budgets, or disseminate efforts at evaluation. Many guard such information zealously due to competition for funding from scarce sources.

CARE Peru stands out in this regard, for its innovative complaint mechanism. Transparency and accountability are built into all proposals. Through email, a free phone line, and in-person visits, beneficiaries and stakeholders of CARE programs around the country are encouraged to send comments or complaints to the organization. An average of 90 messages are received every month and full-time staff members are assigned to respond to each one within a two-week period.

Human resources. In a context of sustained economic growth, NGOs face new competition for skilled professionals from government agencies and private firms, including corporations and for-profit consulting outfits. We heard considerable complaints about “brain drain” and “staff poaching” and the resultant pressures to drive up wages (from PRISMA, IEP, CAD and others). But there were few ideas about how to offer more competitive salaries and/or provide other benefits to retain skilled staff.

In some cases, such as SASE, that NGO has created a for-profit consulting arm to compete for corporate contracts and provide additional income to its personnel.

Another alternative is making more effective use of volunteers. Few NGOs in Peru invest time to develop a corps of volunteers and reward them in appropriate ways. PRISMA appeared to be a positive exception.

Gender and ethnic diversity. Although many donors insist that NGOs include gender perspectives in their proposals and projects, remarkably few NGOs seem to give systematic attention to gender or racial issues within the organization.

One positive example is CEDISA in San Martin. The current Executive Director explained to us how the NGO started out working with poor women to generate income in traditional ways, then moved to promoting equal opportunity and women’s rights with its beneficiaries. But only belatedly did they begin to focus on gender equity within their own staff and operations – despite significant opposition from key board and staff members. Today, they have a requirement for gender balance in their leadership.

Sector-Wide Limitations

One important finding from this study is the lack of effective, second-tier organizations that can take leadership in promoting sector-wide standards, transparency and accountability, or CD efforts (such as InterAction in the U.S.).

The *Asociación Nacional de Centros* (ANC), a longstanding NGO network with 70 members nationwide, could play this role but has been unable to do so. It has just one paid Executive Secretary, a board of eight NGO representatives (four from Lima, four from the regions), three staff members, and very modest resources, drawn largely from membership fees which are to be collected monthly, a practice that is cumbersome and has led to considerable non-compliance. The ANC does claim to provide legal services to members related to non-profit law, labor laws and other issues. But it has not worked on OD or certification-type issues.

According to interviewees, the ANC did participate in a recent effort with *Propuesta Ciudadana* and *Proética* called “*Rendir Cuentas*” (accountability), funded by the IDB, that involved sending

a questionnaire to members regarding their statutes, internal audits and sources of funding. Just 32 organizations responded and although the results were posted on a website, to date there has been no follow-up. We learned from PRISMA and CEDRO, both members of ANC, that they perceive no real benefit from affiliation, though they noted that the situation has improved with the current Executive Secretary who's been there a year. Some of the ANC's larger members insisted that it should lead an NGO certification initiative, with third party monitoring or peer review. Yet this has never been seriously raised within the Association.

Interviews with business leaders confirmed their sense that NGOs have a “double standard” about transparency, demanding it from companies but not willing to practice what they preach. As one interviewee from the banking sector noted, companies in Peru comply with international standards such as the Extractive Industries Transparency Initiative (EITI) and Global Compact, and specific norms for banking. They are also regulated by government agencies. Yet there are no comparable voluntary or compulsive standards applied to or by Peruvian NGOs.

In summary, the organizational landscape in Peru for taking greater national initiative in development work is promising on various fronts, but there is considerable room to strengthen the sector. If donors are serious about strengthening local capacity, either because they are departing or because they seek stronger in-country counterparts, they should do more to address these needs. Just giving funding for “capacity building” is not enough, as many organizations do not know where to start. That leads us to the following section, which focuses on what services are available in Peru for this purpose.

IV. LOCAL CAPACITY DEVELOPMENT MARKETPLACE

Although the demand for capacity building services in Peru would seem high today, the supply of service providers appears to be low. And although there are many talented and experienced professionals who can offer advice to peers with regard to specific functions or help start-up organizations, there is no real organization of service providers and few (if any) institutions that do this on a regular basis.

As mentioned below, the USAID Mission sent out a Request for Information (RFI) for LCD service providers and received 20 responses, but they have not done a mapping of what else might be available, and at least two of the respondents on the list – interviewed for our study – are not strong contenders. In one case (NEXOS), the organization seems to have exaggerated its own capacities in the RFI, and in another (SASE) the organization was very small and specialized in socially responsible business.

The most common form of service mentioned by interviewees was in fact **individual consultants**, found largely through word of mouth. Yet this often means hiring individuals with experience in specific technical or programmatic areas, rather than overall institutional capacity development, to provide short-term assistance on a specific program or line of work. And it largely involves individuals working freelance as temporary consultants, not working within an organization that provides a comprehensive array of CD services on a regular basis.

One highly-qualified professional, for example, mentioned that there is a pool of people in his field (decentralization) who are in demand by donors and local governments because they know

how to prepare winning proposals, design and implement programs, do evaluations and so on. And he said that every donor agency has its own list of experts they call on to evaluate programs or help grantees. But this is not something that is organized or public.

A second form of service provision is through **larger NGOs and networks** that “mentor” or provide advice to smaller peers. Both CARE and PRISMA reported such activities, and the *Mesa de Concertación de la Lucha Contra la Pobreza* (a GOP anti-poverty program) mentioned the promotion of a new network of technical assistance (*Red de Apoyo Técnico* or RAT), and an association with a consulting firm (*Apoyo*) and a business school (ESAN), to provide management training to local government authorities. Such activities are mentioned in more detail below. However, in no case was this their main scope of work and they were not explicitly funded to do this. Furthermore, this puts them in a difficult situation if they are competing for the same sources of funds with the NGOs they are called on to advise.

A third set of service providers active in Peru are **private, for-profit consulting firms**, such as *Apoyo* and *Macroconsult*. Although working largely for private companies, they also work for government, and the USAID Mission has used such firms to provide assessments of the government agencies with which they plan to work more directly (Devida, Ministry of Environment). However, many of these specialize in applied research, or specific project design, and it is unclear if they are adequately prepared to provide capacity-building service to NGOs or nonprofits engaged in various forms of development or advocacy work.

We identified at least one consulting firm with a stronger social focus (SASE), that has worked with NGOs and has been recommended by donors (for example, by USAID to AEDDES). However, they are a small and loosely-organized group of individuals, whose main line of work is providing private for-profit companies with help in designing and assessing corporate social responsibility (CSR) programs.

Peru has a number of good **universities** that provide services related to public and private business management, including various kinds of training and extension programs as well as applied research and consulting. Top universities in Peru today tend to have a stable pool of professional talent within their faculties, and greater institutional stability and financial security than consulting firms or NGOs. They do not depend on foreign assistance or consulting fees for their core operating expenses. Furthermore, institutions such as the Universidad del Pacífico (UP), Universidad Católica (PUCP), and Universidad ESAN, have considerable prestige among business, government and civil society leaders. Among them they offer quality programs in Business, Administration, “*Gestión Social*” (social or non-profit management), as well as the applied social sciences, impact evaluation, accounting and other skills. The UP and PUCP are part of an active Consortia (with Universidad de Lima and Cayetano Heredia, specialized in medical and health professions), and the UP also has a longstanding network with provincial universities around the country, offering services to their faculty and administrators.

At present, none of these universities offer degrees in fields related to CD, as demand for such has been minimal thus far. Because they survive primarily on tuition and fees, a program of this type would need to be constructed on the basis of some type of market study and expression of real or potential demand. Peruvian universities would also benefit from partnering with strong overseas universities in these fields.

A member of a team of UP faculty specialized in natural resource management was involved in a successful capacity building program funded by USAID in 1999-2000. In this case, the UP partnered with IRG to provide training over three years to public, private and NGO staff engaged in protection of national parks. Specialized Peruvian university faculty first trained participants in project development and other skills, then helped them design some 30 conservation projects, which were eventually funded by USAID or other donors. More recently, The Americas Fund (FONDAM) has supported UP to partner with and train faculty at a national university in Loreto, in economic valuation of natural resources.

Although the USAID mission and other donors have hoped that **private business or business associations** would step in to provide more services to nonprofits and local governments, this has not been the case. Peru 2021, a business leadership group associated with promotion of CSR, has been unable to raise significant funds from its corporate members and vies with NGOs for similar external funding. Its main mentoring functions have involved transferring business skills to small and microenterprises. It is our sense that, while private companies operating in Peru can be good allies for CD programs to which they can contribute funding and human resources, they should not be tasked to lead this effort.

The major exceptions are some of the **large-scale mining firms** operating in Peru today. Our interviews stressed the growing role of these companies, as both demanders and suppliers of various types of services, including training of community relations experts and professionals who can design, monitor and evaluate social programs in their areas of operation. Not only do the firms contract other institutions and individuals for these efforts, they also compete with both NGOs and government to directly hire the top talent in these fields.

Mining companies have become an important source of support for NGOs seeking to diversify their funding sources in the face of declining foreign aid, as well as providing training and technical assistance to subnational governments. For example, CEDRO, which was largely created and sustained by USAID, says it is getting increased funding from mining companies to address problems with drugs and alcohol that appear in their areas of operation. The main clients in SASE's portfolio are also large multinational mining firms. They have also set up their own NGOs or foundation-like entities to operate programs or award funding for social projects.

In 2007, around 40 mining companies signed agreements with the Peruvian Government to make voluntary contributions to local and regional funds operating in their areas of influence, in lieu of a much-demanded windfall profits tax. The agreement also included company commitments to effective and participatory management of these funds to help circumvent bureaucratic difficulties in disbursement and management of resources by provinces and municipalities. Firms such as Xstrata, Rio Tinto and Vale have established 'social trusts' as part of their payments to secure important new mining projects.

Finally, the **Peruvian government** itself has been investing considerable resources in capacity development within the public sector, including recruitment and training of skilled public managers through SERVIR (a new agency) and more specific short-term training efforts by the Ministry of Economics and Finance (MEF), oriented to improving use of the public investment system.

However, many public sector entities are still in need of considerable institutional capacity-building efforts themselves, and turn to private consultants and think tanks for assistance. For example, an economist at GRADE has been contracted to help monitor and evaluate a new program for agricultural productivity; and the Research Center at UP has been contracted to help implement a new system for poverty measurement, among other tasks. To advance its efforts, FONCODES (now within the new Ministry of Social Inclusion) has formed alliances with CARE, PRISMA, Proética, IEP, GRADE and various foreign donors as well. Although President Humala recently announced the creation of a National School of Public Administration, various insiders believe this will involve alliances with existing universities, rather than a whole new institution.

What other donors are doing (or not)

While a number of donors are leaving Peru or reducing their aid because of its middle income status, others are moving in for different reasons, such as to accompany increased investments by firms within their countries in extractive industries. This is the case of Australia, which is opening a regional office of AUSAid in Peru, as well as the Canadian government, the Swiss, and the Chinese. Private donors such as the Open Society Institute (OSI) and Ford Foundations also have important programs in Peru.

Virtually all of these donors are now talking about capacity development, and trying to invest resources in this, but not in a systematic way. Several major donors, including USAID and IDRC/Canada, are largely leaving it up to the grantee to determine what their CD needs are and how to address them. “The idea,” according to one IDRC grantee, “is that each one recognize what their own organization needs.” Yet it was not clear that these grantees had improvement plans or the kind of professional help they would needed to implement them.

One repeated complaint we heard from interviewees in both the public sector and civil society, was about the **lack of cooperation among foreign donors** in these efforts. Donors on the whole in Peru appear to be dispersed and often operate in isolation from one another, duplicating efforts or wasting time and resources. The former Vice Minister of Environment did mention a group of donors that had worked well together in the environmental field (forming a “*mesa verde*” or “green round table” that met regularly to exchange information), but this was an exception. Although lack of stronger leadership from government was mentioned as the main obstacle to donor coordination, many felt that donors also need to be more pro-active in helping the government to identify priorities and getting other donors on board. In this context, however, several people cited USAID as a donor with a greater tendency to operate separately, and not one likely to take the lead in coordinating with others.

Perhaps the most striking example we found of a lack of cooperation among donors and other actors was in the area of decentralization and strengthening local government. Virtually *everyone* we spoke with was working on some aspect of this effort – public and private donors (USAID/PRODES, GIZ, Swiss, Spanish, OSI); lenders (World Bank, IFC/Programa Canon); the Government (MEF, Foniprel, FONCODES); private firms (Antamina, Yanacocha); large and small NGOs (CAD, CARE, PRISMA, IEP); and various networks (*Propuesta Ciudadana*, MCLCP/RAT). But much of this work was not coordinated, even when operating in the same regions, leading to duplication of effort, competition for scarce talent, and little concerted effort

to share knowledge, compare methods or assess the impact of it all. Again, the lack of leadership from the GOP has been part of the problem, but this has been exacerbated by the lack of donor coordination.

Given these initial findings, we consider it fundamental to undertake a more complete mapping exercise of what is (or is not) available in Peru in terms of providing CD services, and what components could be forged together or strengthened to respond to the many needs mentioned in section III. This has not yet been done by the USAID Mission in Peru, but would be important for any international donor wishing to partner with local organizations in this country.

V. USAID/PERU AND LOCAL CAPACITY DEVELOPMENT

Virtually all USAID/Peru programs involve “capacity building” as an underlying theme. Most are large initiatives with multiple actors, organizations and regions. However, the focus has been narrowed in the current period. As described on the website (<http://peru.usaid.gov/overview>):

“USAID’s strategy will support President Humala’s social inclusion goals, by focusing on the following objectives:

- **Objective 1:** *Alternatives to illicit coca cultivation increased in targeted regions.*
- **Objective 2:** *Public service delivery improved in the Amazon Basin.*
- **Objective 3:** *Natural resource sustainably managed in the Amazon Basin and glacier highlands.*

USAID’s annual financial support to Peru has declined from US\$152 million in 2002 to \$66.38 million in 2011, and is projected to be US\$51.58 for 2012.⁹ In 2011, the budget was concentrated on Alternative Development (39%), Environment (27%), Health (15%), Democracy (13%) and Education (6%). According to interviews, the Mission’s total budget this year includes another \$20 million for regional programming. The latter is aimed at promoting capacity in the Andean countries for economic growth through free trade, improving competitiveness, and protecting the Amazonian environment. It is expected that, by 2014, 20% of the Mission’s budget will go directly to local recipients. However, it was noted that this estimate could change, given that “the GOP doesn’t spend quickly enough.”

All USAID programming in Peru is to center on five departments in the Amazon Basin area where drug trafficking, money laundering and related illegal activities have been concentrated: Loreto, Amazonas, San Martin, Ucayali and Madre de Dios.

Much of this effort is focused on improving the capacity of Peruvian government institutions (local and regional government and line ministries). To date, international consulting firms and U.S. PVOs have been the main implementing partners of major USAID initiatives, including alternative development, poverty reduction, decentralization, health, education, and so forth. However, as a case in point, the U.S. Congressional Budget Justification (CBJ) for FY 2013

⁹ Historical budget chart: <http://peru.usaid.gov/historical-budget>. Pie chart with breakdown of current budget: <http://peru.usaid.gov/fy-2011-budget>

states: “FY 2013 will be the final year of U.S. funding for direct poverty alleviation activities [in Peru], which will be transferred to the GOP.”

In January 2012, USAID signed an agreement transferring to the *Sierra Exportadora* (SIEX) agency of the Peruvian Executive Branch, the functions of the Mission’s Poverty Reduction and Alleviation (PRA) program, which began in 1998 and involved 10 “operators” or centers around the country.¹⁰ PRA was originally administered by the leading Peruvian business association (CONFIEP) and USAID expected the local private sector to take over full ownership thereof. However, the lack of administrative and financial capacity (and firm interest) in CONFIEP, led USAID to transfer the program instead to Chemonics International. The instruments developed by USAID and Chemonics over the last 12 years, focusing on a market-based and demand-driven approach to helping rural producers, are what they are hoping to preserve as the transfer is made to the GOP. Political tensions and disagreements over the management of this program have slowed the actual timing and terms of the transfer, which is still underway. If successful, this transfer will signal the capacity of the GOP to manage other such economic development programs.

Other cases mentioned by USAID staff where programs had been successfully transferred to the GOP or to national NGOs have included the PL480 food assistance program, which became CRECER, and the micro-credit work supporting *Cajas Municipales* (municipal banks), which involved CARE, PRISMA, ADRA and other NGOs now referred to as “*criaturas de USAID*.”

The FY 2013 CBJ also states that US. Development Assistance to Peru:

“will fortify decentralization, particularly in the Amazon Basin regions, by strengthening sub-national government capacity to plan and manage social services such as health and education, improving citizen access to information and ability to articulate needs, and enhancing government and citizen capacity to prevent, manage and mitigate conflict. Specifically, U.S. assistance will help provide training and TA to national and sub-national institutions on rule of law, transparency, strategic planning, budgeting, tax collection, evidence-based decision making, procurement, and conflict prevention and mitigation. Resources will also help civil society groups become more adept at organizing, budgeting, and engaging with the government.... As FY 2013 will be the final year of U.S. funding for education in Peru, the program will build local capacity and work with the Ministry of Education....”

To address capacity development (CD) issues, in mid-2010 USAID/Peru created an Implementation and Procurement Reform (IPR) team, which is led by the Regional Legal Adviser and includes members from all offices within the Mission. There are sub-teams for IPR Objective 1 and Objective 2. The Mission is a DLI training center, with up to 25 DLIs at one time – now 12. Originally, USAID/W asked that the IPR team be made up of DLIs, but the Mission pushed back, saying it was important to include representatives from all offices. The team meets every 2-3 weeks or when there is new information to share. Due to a lack of available staff time, the Mission has not yet conducted the mapping exercise suggested by the IPR team in Washington. However, during our discussion with the Regional Contracting Officer

¹⁰ http://www.agronegociosperu.org/noticias/170112_n1.htm

(RCO), it was mentioned that it may be possible to use one of the existing Blanket Purchase Orders (BPAs), designed to address research topics, to conduct the mapping exercise.

With relation to IPR Objective 1, through two BPAs, the Mission contracted two consulting/auditing firms to work with two key GOP institutions (DEVIDA, the Drug Enforcement Agency, and MINAM, the Ministry of the Environment) to conduct intensive assessments of all systems and develop plans for how to help correct any problem encountered. That work was underway.

According to our interviews, currently, to address IPR Objective 2, the Mission is in the process of developing a new procurement, which is to center on the provision of CD services for civil society organizations (informally and temporarily termed the “USAID University”). For this purpose, \$500,000 is to be provided by USAID/IDEA through the Development Grants Program (DGP) and, assuming the availability of funds, is to be matched by the Mission. To help inform the design of this new procurement (the vehicle for which is yet to be determined), earlier this year the Mission published two Requests for Information (RFIs). One was seeking “Peruvian firms and non-profit institutions that are able to provide educational and consulting services to other local organizations that may need to strengthen their capacity to perform and sustain themselves,” and the other was to learn from NGOs their CD needs. A total of 35 responses were received from NGOs and 20 from consulting firms and other service providers. To date, there has been no follow-up, and it was not clear just how the Mission will use the information received. One concern expressed by Mission personnel was how to leverage the experience of international partners for the strengthening of local capacity. The question of whether to provide assistance to grantees specifically for meeting USAID requirements or for broader CD purposes was also raised.

As for USAID’s approach to grantees, a number of interviewees criticized USAID for its slow processing, lack of clear guidelines, and especially its difficult and bureaucratic grants management requirements, especially for those who have to operate with reimbursements, or with very small grants. An example was the youth group leaders in San Martin who had to do excessive bookkeeping and reporting on an \$4,000 grant, and said USAID was “Worse than the State!” USAID was also criticized by some for still relying too much on large intermediaries that are seen as siphoning off the lion’s share of funding in hefty overheads (namely, Chemonics).

Reportedly, the Mission has been grappling with the meaning of CD. As one interviewee noted, “Below the big picture, the main challenge is to agree on what CD means and how to mainstream it. Is it institutional or technical?” It is important to note that, because it is assumed that the Mission will close in another 10 years, preparations for leaving a legacy of capable public and private organizations at the national and regional level is considered an important priority. One interviewee felt that, given the limited staffing, it is not possible to address both the technical and institutional CD needs. It was noted that, while USAID seeks to leave a legacy of capable technical personnel, if local institutions are not strengthened it is unlikely they will become sustainable and, thus, any advances may be lost.

One major initiative aimed at achieving IPR Objective 2 was the issuance of an Annual Program Statement (APS) titled the **Local Partners Program**, which has a closing date of November 27,

2012. Between \$16M and \$19M (\$4-\$5M per year) is to be available for approximately 4-6 awards of from one to four years in duration. Programmatic areas and funding levels include:

- Alternative Development Strengthening Social Capital, up to \$2M per year for 1-2 awards over a period of one to three years
- Intercultural Bilingual Education in the Amazon, up to \$300,000 per year for 1-3 awards over a period of one to three years
- Natural Resources Management, up to \$1M per year for 1-3 awards over a period of one to four years
- Addressing the Needs of People with Disabilities, up to \$1M per year for 1-3 awards over a period of one to three years

We were told that no program of less than \$100,000 over a period of two years will be considered. The program uses a two-stage application process, including the submission of a concept paper and budget of no more than five pages (reviewed as received with responses sent within 30 days) and, for those accepted, organizations are invited to submit full applications. While concept papers are not required to include a CD component, for full proposals applicants are required to complete an organizational self-assessment (a matrix patterned after MSI's IDF) included in the application package provided by USAID. Results of the self-assessment are to be included in any award made, including "separate funding to assist the recipient organization to acquire development assistance needed to address identified organizational development needs... along with the proposed source(s) of the needed development assistance." A budget of up to 10% of the total project amount for CD will be required. USAID is to provide TA to applicants as needed during the full application process, "to the maximum extent feasible."

To date, one major award has been made under this APS, and two or three applications were currently under review. The award made was over \$8 million to the *Centro de Educación e Información para la Prevención del Abuso de Drogas (CEDRO)*, a Peruvian NGO created with USAID support in 1986, for a "Program on Digital Inclusion." During the course of this study, the research team interviewed the CEDRO project director in Lima, as well as the Regional Coordinator in Tarapoto, San Martin. Findings are discussed in Section VI of this report.

In June 2012, the Mission also released an APS under the **Development Assistance Fund**, the objective of which is "to support small-scale development activities that benefit underserved Peruvian communities and/or populations suffering social inequities." This provides \$400,000 a year for grants from \$5,000 to \$50,000; approximately 8 to 20 awards were anticipated. This APS was described as a "catch-all fund to do things politically" and quickly, such as pet projects for the U.S. Ambassador to inaugurate. Reportedly, it accepts more risk and can be used for any type of small need. Some 20 grants have been awarded. Given that there is no CD requirement for these grants, this fund does not appear to be building local capacity in any significant way. One interviewee noted, however, that by simply learning to manage a USAID award, the capacity of recipient organizations is sure to be strengthened.

Finally, a number of interviewees external to the Agency and not necessarily involved with it, had some negative impressions. For many actors in the development community in Peru, USAID is not seen as a team player – not participating in networks or coordinated efforts with other donors, and instead having an excessive emphasis on USAID "branding." USAID was also

criticized by a few for not necessarily sharing the priorities of the Peruvian government or those of other development actors, given the emphasis on the Drug War/Alternative Development limited to five Amazon regions.

VI. CAPACITY DEVELOPMENT APPROACHES

In the course of this investigation, the research team became aware of six different types of approaches that have been employed by donors, NGOs and others to achieve CD objectives. The following paragraphs list these approaches and provide brief examples of each stemming from the information gathered and our direct observations in the field.

1. Direct awards to Peruvian grantees

- **CEDRO – Centro de Educación e Información para la Prevención del Abuso de Drogas**
As noted in Section V, this Peruvian NGO was the first to receive an award under the Mission’s Local Partners APS. Approximately 60%-70% of CEDRO’s funding comes from international donors (roughly half of this from USAID), and most of the rest comes from mining companies to address problems with drugs and alcohol in their areas of operation. The purpose of the three-year, \$8+ million USAID award is for a “Program on Digital Inclusion” to promote access to broad band Internet services for low income communities in various areas in the Amazon Basin with a special focus on youth. Three major components are included, with the budget allocated as follows: 90% for the creation of technological centers in key areas of the Amazon Basin; 8% for institutional strengthening; and 2% for networks and alliances with youth groups to increase project impact.

It was reported that three major factors had led CEDRO to begin focusing on institutional strengthening (IS): the sudden departure after 25 years of the well-known executive director, who was recently appointed by the president to head DEVIDA, the government drug enforcement agency; the financing provided by USAID; and the pro bono support of Deloitte provided by Finland. The project director noted that it is important to address issues of sustainability and efficiency, but that IS is not within his sphere of expertise. He reported that, while realizing the importance of this component, it is the least developed part of the program, though they have now created an IS office. He explained that, thanks to support from Finland, Deloitte is providing pro bono services to help strengthen the organization. At the moment, Deloitte was conducting an organizational assessment, to be completed in December and to be followed by development of an improvement plan. They will then send a three-member team of international professionals to provide TA for three-month assignments twice a year for the entire three-year period. They hope to coordinate between Finland and USAID. The field Coordinator in Tarapoto was not aware that the project had an IS component.

- **AEDES – Asociación Especializada para el Desarrollo Sostenible**
This local NGO based in Arequipa was founded by five men in 1994 to focus on issues related to climate change. It is now in the process of scaling up with funding from MINAM (Ministry of the Environment), GIZ, Dutch government, Columbia University, etc. The

Board includes the original five members, two of whom are also among the 25+ staff members. In September 2011, AEDDES received a three-year DGP-2 award for a project to strengthen climate change adaptive capacity in local governments and organizations in rural southern Peru. The original budget was \$858,776 but, after the first 10 months, in July 2012 the budget was increased by approximately \$400,000 for a total of \$1,259 million and two new components were added – water and CD. The RCO explained that those additional funds had become available due to the inability of another NGO to initiate its DGP-2 project. Through interviews with the USAID grant manager and the AEDDES project director (by conference call to Arequipa), we learned that the original project director had left AEDDES after being downgraded from the executive director position and that the president had assumed both roles – executive director and project director. He explained that a search was underway to find a new project director.

To launch the new CD component, USAID asked AEDDES to complete a “Self-Evaluation of Institutional Capacity” – a matrix similar to MSI’s Institutional Development Framework (IDF). AEDDES filled out the matrix and returned it to the grant manager. Based on the results of that exercise, USAID and AEDDES agreed on four main weaknesses to be addressed in the Institutional Development Plan (IDP) that AEDDES was to formulate: strategic planning, including new statutes, members, etc.; new accounting system and software for reporting to donors; new M&E system and staff training; and internal and external communications. In response to our query, it appears that no thought had been given to using the results of the self-evaluation for fixing baselines or the indicators to be used to track change over time. Nor was it clear who had participated in the self-assessment process. AEDDES was to seek advice and “coaching” for implementation of the IDP, but had not yet been able to identify appropriate service providers. USAID had suggested several potential sources and, at one point, had sent a three-member team of Mission personnel to Arequipa to help the grantee get its financial management system in order.

In the absence of one or more proven CD service providers, grantees will be required to spend time facilitating the assessment process themselves and locating appropriate sources of technical assistance to address their needs. The USAID grant manager emphasized several times that there should be “no imposition” on the grantee – that the focus was to be on the demand side, letting the grantee define its own needs and decide how to address them.

- **Grupo de Análisis para el Desarrollo (GRADE) and Instituto de Estudios Peruanos (IEP)**

These two Peruvian NGOs were selected to participate in the four-year “Think Tank Initiative” (2011-2014) funded by the William and Flora Hewlett Foundation, the Bill & Melinda Gates Foundation, the British and Dutch governments and IDRC of Canada, which administers the project. Of the 49 participating think tanks in 22 countries around the world, 12 are from seven Latin American countries. The purpose of the Initiative is to strengthen the ability of participating think tanks to sustain their operations over the long term. Each NGO reported that they had been asked to develop annual work plans for use of the funds provided by the Initiative (about \$400,000 per year), but that there was great flexibility in terms of expenditures. In Latin America and the Caribbean, the Initiative was launched in March 2012

with a three-day workshop in Asuncion, Paraguay which looked at think tank business models and the tools and techniques for mobilizing resources.

Both GRADE and IEP are well-established research centers based in Lima. They both participate in a variety of networks and alliances and they both do research for various government agencies as well as private sector entities. In addition to core staff, they have pools of individual researchers who work as consultants and are basically responsible for finding their own funding. Both made the case that, unlike universities, research institutions do not generally have endowments or other permanent sources of support and, while businesses may provide funds for development projects, they do not provide support for research. Both referred to their work as being “project based” – i.e., while they have core administrative and management staff, individual researchers are responsible for finding their own funding. Both GRADE and IEP reported that the funds from the Think Tank Initiative represent an essential contribution for the achievement of institutional strengthening and longer-term sustainability.

GRADE, founded in 1980, has gained prestige in the field of policy-related, socio-economic research and is often called upon by various government agencies, which fund about 20% of the overall budget. Multilateral institutions provide another 30% and 30% comes from IDRC, the Moore Foundation and the Ford Foundation, while the rest comes from small donors in the private sector. GRADE has 11 members, who meet semi-annually and elect the three-member Executive Committee. There are 11 principle investigators, 5-6 associate investigators and between 30 and 35 research assistants. It was noted that it is difficult to retain junior researchers because the universities and the public sector offer better salaries. Their annual plan for use of funds from the Think Tank Initiative includes two strategies: strengthening the research agenda, and promotion of a generational change among their researchers, inviting young people in their 30s who are finishing their doctoral studies to form part of the research team.

IEP was founded in 1964 with support from the Ford Foundation. Reportedly, given changing funding trends, by the 1990’s they moved away from central funding, having “learned by force that the only way to be sustainable was to be project based.” It has an Assembly of 40 members which meets once a year and elects the Director and the Consejo Directivo, which meets once a month. The core staff includes some 25 members on the payroll. (The Director reported they are now trying to calculate an overhead rate.) IEP has no strategic plan and there is no wish to have one. CIDA/Canada provides funding for some development-related research. The core funding provided this year by the Think Tank Initiative is to be used for: research, improved administration and communication.

2. Transfer of lead role to local personnel

The RCO confirmed that awards made by the Mission stipulate that expat personnel be replaced by Peruvian staff within a specified period of time. The following are examples we learned about during this investigation.

- **ACDI/VOCA**

Through a GDA program, in February 2011 this US PVO was awarded \$3.6 million from the Mission for a three-year project titled “Strengthening the Coffee Value Chain in Peru.” The agreement stipulated that the American COP be replaced by the Peruvian DCOP after the first 18 months. In fact, that happened just after our interview with the expat COP. It seemed clear that the project had achieved significant gains and that the COP had been fully committed to its success. In discussing the transfer, he described the challenges to be addressed. First, he stated that, given the history of violence and illegal activity in the Amazon region where the project works, there is a “lack of trust among Peruvians,” and that being an outside third-party had helped him win the trust of key officials and project participants. As he put it, “that trust doesn’t transfer automatically.” Another challenge was the fact that all reports to USAID must be presented in English and the DCOP (whom he described as very able technically) is not bilingual. To address that dilemma, he had hired an American woman who has lived in Peru for years and has management experience as project administrator. His plan is for the two of them to work together as a team. (During our debriefing at USAID, the RCO noted that it might be possible to arrange for reports to be submitted in Spanish, with final versions translated for inclusion in the DEC.) The COP noted that, while Peru is probably ready for local capacity, USAID money is US taxpayer money and that US organizations need to benefit. To build local capacity, he recommended putting funds into a foundation (like an endowment that earns interest) that, in turn, does local tenders for small projects. He also felt that GOP funding for NGOs needs to be ensured.

- **Chemonics - PRA**

The USAID-funded *Proyecto de Reducción y Alivio a la Pobreza* (PRA) with a budget of about \$5 million a year, began in 1999 with an expat COP. This is a complex activity, with ten sub-contracted “operators” in different parts of the country. As explained above in section V, PRA was originally administered by CONFIEP, the leading business association, with the idea of eventually passing it over to the Peruvian private sector. Because CONFIEP was unable or unwilling to manage or support the project, it was transferred to Chemonics in 2000. In 2006, the current incumbent, a highly-experienced Peruvian originally with CONFIEP, was named by Chemonics as COP. While the exact end date is still in negotiation, the project will likely be terminated within the next few months. During our interview, the COP noted that the MOU signed in December 2011 with the Peruvian organization that is to take over includes no CD provision and that there is no plan to strengthen the capacity of that entity. He pointed to the need for the capacity to design projects, implement and manage them and front the money needed to fund them, since no advance payments are provided by USAID.

It is interesting to note that, according to this COP, Chemonics is implementing three large USAID projects in Peru, each of which operates independently. There is no central office, and all COPs report directly to HQ in Washington. He explained that, in general, their USAID-funded projects do not include capacity building and, when they mention it, it is a fuzzy concept with no clear indicators or sense of what is meant. He recommended that USAID give greater priority to CD and how it is implemented, noting that in cases like this a real transition process needs to be in place, with CD actions and a focus on sustainability. He

also felt that USAID should communicate better with all parties and be clearer about what they are to do and put this in the agreements.

- **SNV**

Another case in point is this Dutch NGO, registered as a Peruvian NGO, which has undergone major changes in its Latin America program since 2007 when development assistance priorities changed and the Dutch government cut funding significantly. The Netherlands has cut overseas aid overall and slashed the number of countries receiving aid from 30 to 15, mostly in Africa and a few in Asia. Latin America is basically off the list; funding for Peru will be zeroed out in 2013. Though SNV/Peru still receives modest funding from HQ, they must now sell their services or raise their own operating funds. In essence, they now compete in the same markets with consulting firms and also some of their beneficiaries. The Dutch SNV Advisor/Project Leader stationed in Tarapoto explained that the SNV regional office is in Quito, but is soon to move to Costa Rica. Given funding reductions, in November he will move to Tanzania, leaving an all-Peruvian staff of about 25 in place. They are working on the concept of “*negocios inclusivos*” or socially inclusive business plans and projects by larger firms. They have funding from the IDB for this work and have promoted 40 such businesses in Latin America since 2007 – in coffee, cacao and now in renewable energy. They also have support from Ford Foundation for a regional assessment of inclusive business initiatives; in San Martin the main funders are HIVOS, Cordaid, the Fax Foundation and others.

3. TA provided by individual professionals/volunteers

Another form of CD employed by some donors in Peru is the assignment of foreign nationals as professional volunteers working with local organizations for a designated period of time. Examples include the following:

- Since 2010, the ***Red Nacional de Promoción de la Mujer (RNPM)*** – the National Network for the Promotion of Women – has a four-year agreement with **CIDA/Canada** to receive volunteers to help them strengthen their organization in various ways. RNPM, founded in 1998, is headquartered in Lima and has member networks made up of NGOs in all 24 regions of the country. Early on, support for institutional strengthening was received from the Dutch Embassy, and the Network has collaborated with Chemonics, RTI and other implementing agencies, providing gender-inclusion, citizen watchdogging and other project components. Under the CIDA agreement, in March 2012, the network in San Martin received a volunteer who is a Mexican national residing in Canada and is a communications specialist. She has started a radio show and is teaching RNPM members how it works, so that when she leaves at the end of this year she can transfer it to the local women. She recently asked CIDA to extend her stay. In November 2012, the RNMP will receive three more CIDA volunteers. One will focus on project design in the Lima office and two will be assigned to specific local member organizations in San Martin. The main concern expressed by the RNPM Executive Director was that, while the volunteers provide assistance in their particular areas of expertise, they really leave nothing behind when they depart. She felt that skills are not transferred to local counterparts and that volunteers leave no lasting organizational improvement.

- The German development agency, **GIZ**¹¹, is financing individual TA in two different organizations: the **Association of Mayors of the San Martin Region (AMRESAM)** and **Ciudadanos al Día (CAD)**, a national NGO. In the case of AMRESAM, a consultant paid by GIZ will work with the mayors for three years, focusing on improving their program development and accountability. In the case of CAD, one consultant is now helping them to systematize their experience and methodology, and later this year they will receive another GIZ-sponsored specialist to help develop public advocacy campaigns.
- We also found that the **Corporación Financiera de Desarrollo (COFIDE)**, founded 41 years ago, is a second-tier, parastatal development bank operating with public capital which sponsors a program called *Gestores Voluntarios* (Volunteer Managers), for which a pool of experts with business-related skills provide part-time volunteer services in response to requests for assistance from any type of organization, including businesses, NGOs, local community groups and others who need such services. This service is coordinated by the Lima office and provides Certificates to participating volunteers. COFIDE also operates a database for information searches on buyers, markets, packaging and other business-related issues. COFIDE has not publicized these fairly new services and is in the process of getting the word out through Facebook and special events.

4. Transition of US PVOs to Peruvian NGOs

Though the “Peruvianization” of experienced U.S. organizations is not necessarily a CD strategy, it does represent a contribution to the available stock of local organizations capable of conducting development activities. While the definition of “local” is still under discussion within USAID, during this investigation we found two examples of organizations that had emerged from U.S. PVOs and are now Peruvian NGOs.

- **CARE**
The National Director, who is Peruvian, has held that position for seven years, but for some time before that worked with CARE in the U.S. and participated in the InterAction committee that developed PVO Standards. He explained that CARE International had embraced the concept of giving more representation to country teams and gain more legitimacy with local ownership. This process began 12 years ago with Thailand and was halted because of high cost. The process began again two years ago in Peru; India is next. So, as of August 1, CARE/Peru is now a registered NGO and all projects and staff will be transferred to the new organization by October 1. As described, this is a complicated, but impressive, process, including negotiations with all donors. Also as of October 1, the Fiscal Year is being switched to the Calendar Year, while the same single body Assembly and Board remains, made up of 18 members for two-year terms (who sign letters of resignation in advance to preempt any problems) and all contracts of the 270 staff members in Lima and in seven regional offices and smaller locations are being transferred to CARE/Peru. There is also a pool of 150 consultants, who are being advised of the transition.

¹¹ <http://www.devex.com/en/news/in-sweeping-aid-reform-merged-german-agency/71908>

Now, CARE/Peru is developing a consensus vision for 2021, along with a 4-year strategic plan. Constituency building in Peru is a priority. Their goal is for 50% funding from the private sector by 2015. Funding sources now include the Swiss, CIDA, Dialoga and others. The budget for FY 2010 was \$24 million (with the final stage of Global Fund contracts), and \$15 million in FY 2011. There are two main areas of work: social rights – nutrition, health, education, water & sanitation; and Economic Development & Climate Change – extractive industries (mining with support from USAID for a *Grupo de Diálogo* to train local leaders to understand laws and regulations), also conflict negotiation. Gender considerations are included in all projects – at CARE’s own expense.

One downside to the transfer is that, since CARE/Peru is a new NGO, it is not eligible for some USAID procurements, such as the Local Partners Program. As confirmed by the USAID RCO, this is because, even though the staff has long and proven experience, the new organization cannot meet the requirement that it have a three-year record of past performance.

The Director recommended that USAID make local capacity development more specific – i.e., what kind of capacity do they want to support and where? He felt that some large NGOs could help smaller ones. He also said there is a need to establish standards for local NGOs, noting that, “If they don’t, the government will!” He pointed to the need for self-regulation, self-certification and third party monitoring. Recalling his InterAction experience, he stated that CARE would like to work on this.

- **PACT**

In the late 1990s, PACT International carried out a USAID-funded program to strengthen local NGOs. In 2001, when that project ended, some PACT staff returned to the U.S., while others stayed and created PACT/Peru, which is independent from the international body. For some time the president of PACT International participated on the board of the local organization, but that ended in 2004 when it was clear that PACT/Peru had its own dynamic. Upon becoming independent, the NGO moved from its program-based focus on assisting NGOs working with international donors, and began providing consulting services to businesses and the public sector, especially the Ministry of Agriculture.

The PACT/Peru president does not agree with the notion of creating standards within the NGO community, asserting that each organization should rethink its role, set its own standards and follow its own path.

5. Networking with local groups

Another mechanism that has been used to provide various types of CD to smaller organizations is through a network that is led by a larger and better institutionalized NGO, or by an independent directorate with resources and skills to share with members. The following examples were found during this investigation.

- As mentioned above, the *Red Nacional de Promoción de la Mujer*, which is managed from the main office in Lima, has loosely-organized regional chapters that receive various forms

of support from donors and volunteers. Given the breadth and enthusiasm of its members, we felt that this mechanism was being underutilized.

- The *Asociación Civil Transparencia*, an organization founded in 1994 to do election monitoring, is another example of a nationwide network of local committees, and a small national secretariat with paid staff. The committees receive materials and TA from the main office, and train volunteers in various skills associated with assuring free and fair elections.
- A third example is the *Red Nacional AntiCorrupción*, a network of groups of local NGOs in all 24 regions founded by *ProEtica*, the Peruvian affiliate of Transparency International. Through this mechanism, USAID provided support for a national anti-corruption program that included training in Lima to promote government transparency and prevent corruption, the development of annual work plans by participating groups and a grant of \$4,000 each to carry them out. Support was also provided by OSI. Currently, with German funding, a three-year project is underway to strengthen the Anti-corruption Network for work in the area of climate change, around which there is much ignorance and the misuse of funds by government.
- In the San Martin Region, a longstanding development NGO, *Centro de Desarrollo e Investigación de la Selva Alta* (CEDISA), through a USAID-funded project titled *Democracia Activa-Peru* (DAP), managed a competition for projects with small grants made to five different youth groups, and helped them to gain skills in planning and financial management. The Coordinator of one of the youth groups interviewed – the *Colectivo de Jóvenes de San Martín* founded in 2005 to counteract drug use – explained that they had used their grant to fund a three-day Youth Congress (80 participants), which formed the *Consejo Regional de Juventud* (Regional Youth Council), which is to sponsor a National Youth Congress this month in the capital of San Martin.
- A slightly different model is that of the *Consortio de Investigación Económica y Social* (CIES), founded in 1989 by five Lima-based research centers with support from CIDA/Canada and IDRC. The original goal was to maximize resources among peers, in order to promote more and better research, oriented towards addressing fundamental challenges to Peruvian economic development. Over the years, CIES added a small central staff of its own, as well as an expanding membership (48 universities and non-university centers today), and much of its work involves providing services to the many smaller centers and regional public universities that have joined the consortium. Numerous donor organizations have worked with CIES to hold research competitions, provide training and TA around the country, and promote generational change in the applied social sciences. As an example, CIES is administrating a new initiative by the Belgian development agency which launched the *Fondo de Estudios y Consultorías Belga-Peruano* (1 million Euros) with a call for proposals due by August 17. The main objective is to “strengthen the capacity of public institutions in Peru in support of the Program of Belgian-Peruvian Cooperation and following the principles for the efficacy of development assistance.”

6. CD service providers

As noted earlier, in Peru the field of CD services is disorganized, comprised mostly of individual consultants with expertise in one or more areas of technical assistance. Of the organizations interviewed, those listed below offer various types of institutional strengthening services to different constituencies.

- **Escuela para el Desarrollo** – a local NGO – from its founding in 1987 has had matching funds (50/50) from EED (German churches) to provide CD services to “development agents.” Various NGOs mentioned having received training or TA from the Escuela. In 2000, it helped create a global alliance of four centers (Morocco, Togo, Mali, Madagascar, coordinated from France) called PROFADEL (*Programa de Reforzamiento de la Oferta de Formación de Agentes de Desarrollo Local*). Together, members have developed joint proposals and training materials and they are now jointly designing a program of training for development agents. In 2008, due to an internal crisis, the Escuela took on the role of a consulting firm. Key staff members left but, having made necessary changes, last year a process of recuperation to the former state began; the current Executive Director returned and the plan is to begin providing IS services in 2013.
- **Red de Asistencia Técnica (RAT)** – reportedly, this newly-formed network created by the MCLCP (a GOP anti-poverty program) involves universities, professional associations, NGOs, and others, to work with the Ministry of Economics and Finance (MEF) and the Health and Education Ministries to manage indicators in education and health - apparently related to the Results-Based Budgeting that has been implemented in some parts of the GOP. It is coordinated from Lima, and some 17 institutions in San Martín are part of this network, including various NGOs.
- **Apoyo, GMS, Macroconsult, others** – there are a number of for-profit consulting firms that specialize in one or more areas that deal with institutional strengthening. They tend to work largely with the private sector, especially on issues relate to economic growth, trade, etc. They also carry out consulting assignments with government agencies, and provide policy-related advice and counsel.
- **NEXOS, SASE** – These are NGOs that also provide CD services to CSOs. Both were among those that had responded to the Mission’s RFI, but apparently there has been no follow-up from the Mission. NEXOS reported having provided services to NGOs that were local counterparts of CORDAID/Holland, Desarrollo y Paz/Canada, a Belgian organization, and Terre des Homes Schweiz (Germany). CORDAID and all others are leaving Peru, with the exception of the German donor, which plans to leave in 2016. Our interview with the Executive Director revealed that this is a very small organization with no permanent staff or operating plan. She felt it would be good for USAID to call all RFI respondents together to try to stimulate coordination/create a pool of services. In addition, she felt that service providers “should have a Codigo de Etica.”

SASE grew out of work by the Inter American Foundation in 1999. Today, it’s called “Grupo SASE,” with both a non-profit (Instituto SASE) and for-profit (SASE Consultants).

According to the president of the Institute, SASE does not get international donations, but rather sells services, focusing primarily on issues of CSR, helping companies develop plans, strategies, assessments and community relations with mining companies and others. No overall CD services are offered.

VII. RECOMMENDATIONS

During our interviews with the individuals contacted, we asked what they would recommend to further strengthen capacity development efforts among Peruvian organizations. Those suggestions, combined with our own conclusions, form the basis of the following recommendations, which are offered for the consideration of USAID/Peru as it seeks to achieve the objectives outlined in the Agency's IPR initiative.

Communication

A more precise definition of the term "capacity development" and what the Mission wants to achieve in that regard should be clarified, documented and shared with the broader community of current and potential local partners. Part of that communication effort should be the convening of those organizations that responded to the Mission's RFI.

Identification of service providers

The Mission should conduct an in-depth mapping exercise of both the non-profit and for-profit entities that provide capacity development services. This should include the types of assistance they are capable of providing and an examination of the quality of those services based on their track records. To render truly useful results, this exercise will require an investment in due diligence concerning the effectiveness of the services provided. Otherwise, it will not add much value to CD plans.

"USAID University"

The results of the mapping exercise should be used to help determine the underlying strategy for the new procurement which is being planned to provide CD services to local partner organizations. Mapping results could also be used to trigger a discussion with service providers about the types of assistance needed by grantees and to plant the seeds of collaboration by encouraging them to form consortia among NGOs, universities and others to ensure that a comprehensive menu of services is available.

Increased coordination

The Mission should take the lead in convening international donors for the discussion and coordination of strategies related to the achievement of capacity development goals. This would help to avoid the duplication of effort observed in some quarters and stimulate the leveraging of resources.

Building consortia

The Mission should encourage NGOs and service providers to work together, providing incentives for the creation of consortia to address CD issues. To capture the lessons learned from experience, the Mission should convene grantees receiving CD support, which would also stimulate inter-organizational collaboration.

Improved CD methodology

To better ensure effective and sustainable results, the Mission should adopt a new approach to the assessment of the CD needs of grantees and how to address them. The provision of third-party facilitation of the assessment process, along with the formulation of annual improvement plans, should be considered as a way to achieve results while setting CD baselines and indicators to help track change over time. TA should then be provided in accordance with the specific needs identified. To provide these services, the Mission should create a small cadre of local specialists available on a part-time basis to work with grantees.

NGO standards

As recommended by various organizations, the Mission should encourage the creation of NGO standards, including a code of ethics, as a way to help improve the image of that community, improve transparency and serve as an operational guide. This could be initiated by the convening of a discussion with a small group of NGO leaders with interest and experience in such efforts. The Director of CARE/Peru could be called upon to help plan the discussion, which could include organizations such as PRISMA, ANC, CEDRO, Proética and others.