

CRISES AND TRANSITIONS: NON-GOVERNMENTAL ORGANISATIONS AND POLITICAL ECONOMIC CHANGE IN THE ANDEAN REGION

Anthony Bebbington

Abstract

Two profound and related changes are reworking the rural economy of the Andean region today. These must necessarily be central considerations in the search for sustainable forms of development in this area. The first is institutional change, comprising reform of the state, increased assertiveness of civil society, and ever increasing space being given to, and expected of, the private sector. The second is economic liberalisation, comprising the progressive removal of subsidies, tariffs, quotas and trade barriers. The aim is to create a more favourable environment for investment and private sector activity. These two types of change are closely linked. Together they represent an attempt to increase the role of the marketplace in mediating patterns of development, whilst concurrently reducing the relative importance of the role of government in this mediation process.

Within this context, non-governmental organisations (NGOs) are being asked to assume some of the roles traditionally performed by the state and even commercial organisations - all in the name of more sustainable, participatory, and efficient development. Yet this new context, and the deeper change in development thinking of which it is indicative, present important — indeed penetrating — challenges to Latin American NGOs working in rural development. Furthermore, these challenges are presented at a time when NGOs are faced by a series of institutional problems, characterised in this paper as crises of legitimacy, identity and sustainability.

Recent discussions have begun to raise some of these issues at a general level (Edwards and Hulme, 1995; Hulme and Edwards, 1996). This paper takes the discussion to a more specific level, focusing on the Andes and Chile in particular. The thesis is that changes in the political economy of Andean America have demanded that NGOs rethink their relationships with the state and market. In turn, this rethinking has triggered general uncertainty about the role of NGOs in development. This uncertainty is part of a larger crisis in alternative

development thinking (both normative and analytical). It relates, in particular, to questions about the legitimate (and most effective) role of civil society, the state and the market in development.

The paper argues that— in the context of a funding crisis- this uncertainty is fostering a set of institutional changes among NGOs. Though painful, these changes offer the possibility of re-rooting civil society institutions into the societies of the countries in which they operate such that they are better adapted to the conditions of their own political economies, and less distorted by the incentives and agendas fostered by foreign aid. This has implications for how we think of the role of civil society in development and, more practically, for how donors might best support the process of institutional adjustment.

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Abstract

ANED	National Ecumenical Association for Development (<i>Asociación Nacional Ecu­mérica del Desarrollo</i>)
DESCO	Centre for Development Studies and Promotion (<i>Centro de Estudios y Promoción del Desarrollo</i>)
DFID	Department for International Development (UK; formerly the Overseas Development Administration)
FADES	Fundación Alternativa de Desarrollo
FIE	Support Centre for Economic Initiatives (<i>Centro de Fomento a Iniciativas Económicas</i>)
FONDECO	Fund for Communal Development
GSO	Grassroots support organisation
IFAD	International Fund for Agricultural Development
INDAP	Institute for Agricultural Development
MCCH	Trading as Brothers (<i>Comercializando como Hermanos</i>)
NGO	Non-governmental organisation
NOGUB-COTESU	Swiss Development Corporation NGO Support Programme in Bolivia

Crises and Transitions: Non-Governmental Organisations and Political Economic Change in the Andean Region

Anthony Bebbington

1 INTRODUCTION

The definition of NGOs always demands some clarification. In this paper the term is used to refer to private, professionally staffed, non-membership and intermediary development organisations, what Tom Carroll (1992) calls 'Grassroots Support Organisations (GSOs)'. More specifically, the paper refers to that generation of NGOs primarily created between the mid-1960s and mid-1980s, founded on the basis of a commitment to an alternative, more democratised and inclusive model of development, in response to various factors, including:

- overly bureaucratic authoritarian regimes;
- perceived failures of development (Lehmann, 1990);
- the fact that popular organisations appeared too weak (or too repressed) to be able to carry forward alternative development strategies;
- the failure of the state to carry forward alternative development strategies; and
- the perception that the market is unable to achieve such change, or that it is an inappropriate mechanism to do so.

The paper first outlines challenges faced by Andean NGOs in the context of public sector reform and economic liberalisation, and the conditions of emerging crisis in which NGOs find themselves. The discussion then moves to outline the institutional responses among rural development NGOs which are seeking to identify new roles and sustainable institutional forms. It ends with a brief conclusion.

2 THE CONTEXT OF THE CHALLENGE IN THE RURAL SECTOR

An emerging exclusionary development?
Many NGOs in Latin America emerged to address the needs of the poor who were politically and economically marginalised under models of development pursued from the 1960s through to the 1980s. They aimed to work with groups that the state did not serve (a response to state failure), which were excluded from the market (a response to market failure) and/or which lacked organisational and other capacities to develop sustainable livelihoods (a response to civil society failure). Today, while policy models have changed, and although macroeconomic indicators in the Andean region suggest a situation of relative economic stability and growth, other indicators suggest that many of the rural poor are benefiting little from this growth. These figures suggest that levels of poverty, un- and sub-employment and purchasing power have not significantly improved in

the popular sectors (Ramon, 1997). The implication is that a substantial part of Andean America is following an exclusionary form of development (Figueroa *et al.*, 1996) in which little new employment is generated and in which neither private investors nor government demonstrate much interest in the popular economy as a cornerstone of the development process (c.f. Schuldt, 1991).

Related to this process is the ongoing transformation of the rural economy. Legislation allowing the free sale of resources which were formerly controlled by communities as a whole, and market liberalisation that leads traditional domestic products to be displaced by imports from both Latin America and further afield, place new pressures on the small farm economy. In some areas levels of rural out-migration continue to grow. Even when tight urban labour markets encourage some migrants to return to the countryside, a substantial return of these people to their homes seems unlikely. The viability of the contemporary small farm (*campesino*) economy is thus in question unless new ways to generate, capture and reinvest wealth in rural areas are found. A recent study of the Peruvian and Bolivian Andes concludes: 'If the market is the determining factor in the definition of rural policy, Andean agriculture has two possibilities: to disappear, or to modernise violently in order to achieve competitive levels of productivity and production' (van Niekerk, 1994).

In this context the impact of state and NGO development programmes on campesino livelihood and economy has often been minimal. Notwithstanding evidence of positive social and institutional effects, van Niekerk (1994) estimates that for every dollar invested in NGO projects in the Andes, the economic multiplier effect has been 60 cents (i.e. negative). In Chile, a recent econometric study of the national technical assistance programme (which is in considerable measure implemented by NGOs) suggested the programme has had no impact on rural livelihoods (Lopez, 1995). Much therefore remains to be done to define interventions that might enhance the economic foundations of rural sustainability. In the final instance, if NGOs do not achieve such an economic impact, they will have failed in their mission (Torrano, 1995).

Government reforms and changing NGO-state relationships

A second set of changes has been challenging NGOs to rethink their roles. These changes are linked to the redefinition of the role of government in Latin America

(Bebbington and Thiele, 1993). The 'new' Latin American state is shifting away from direct implementation of development initiatives. Increasingly it subcontracts or finances programmes implemented by non-state institutions, whilst retaining a 'normative' role in setting and monitoring the rules of the game and creating an environment in which private enterprise and civic initiative can flourish. At the same time Latin American states have initiated a number of programmes targeted at the rural poor. These programmes move into terrain that was once the preserve of those NGOs working with marginalised groups with whom the state had little or no contact.

These shifts are double-edged. On the one hand they create a basis from which a more efficient and potentially more accountable state can be built, and upon which the scope for civil society and NGO initiatives can be expanded. Indeed, for years NGOs have criticised the state for its neglect of the poor, its bureaucracy, inefficiency and the way in which it has excluded civil society organisations from its decision-making processes (c.f. Clark, 1991). On the other, one senses that redefining the state's role is also part of a more profound redefinition of the social contract between the state and the popular sectors (Bebbington and Thiele, 1993; Edwards and Hulme, 1996). Furthermore, these public sector reforms go hand in hand with economic changes that may weaken civil society organisations and thus undermine their potential to take advantage of the new 'spaces' for participation (Pearce, 1993). What then do these changes imply for NGOs?

A new franchise state?

Wood (1996) recently described the emergence of a 'franchise' state in Bangladesh. In such a state the government subcontracts the delivery of services, and the management of activities and resources. The terminology may be extreme for Latin America. It does, however, capture a sense of the same fundamental shift in the role of government, with the state using contracts and grants to 'put out' a range of delivery and management activities to the private sector, both commercial and non-governmental. For example in Bolivia NGOs have begun to manage national parks, reserves and protected areas and in Chile, since the

mid 1980s, agricultural extension has been subcontracted to the private sector with NGOs and farmers' organisations allowed to bid for contracts (Table 1). In other Latin American countries, the state has to all intents and purposes withdrawn from both the financing and delivery of services - rural credit provision in Peru being one example.

Different Latin American countries are initiating variants of this bidding and subcontracting model for the delivery of rural development services. They are turning (often at the behest of financing agencies) to NGOs to assume a significant share of the contracts. Initially NGOs were hesitant to do this. They argued that by performing these functions they would be freeing the state of its social responsibilities and at the same time effectively endorsing structural adjustment programmes and the rewriting of the social contracts underlying state activities (Salazar, 1994; Sotomayor, 1994; Bebbington and Thiele, 1993). Over time, however, a different set of pressures have forced NGOs to assume some of these new roles and, indeed, to accept unprecedented coordination of their activities by the state. As we shall see, this presents NGOs with the challenge of how to define their identity and understand and best fulfil their role and institutional mission.

Social funds and special funds

One of the more significant institutional innovations associated with economic adjustment in Latin America has been the emergence of special funds. These funds are established to channel resources to intermediary organisations to implement development activities (be this on a proposal, contract or loan basis). The government (and often donors) set norms and rules for disbursement of the funds and, in many instances, influence the details of how funded activities function.¹ The first of these special funds was the Social Emergency Fund established in Bolivia in 1986 (Wurgaft, 1992). The success of this experience inspired a plethora of other social funds throughout Latin America (and in other developing countries), as well as a range of other types of national funds, including those aimed at preserving the environment, campesino development, regional development etc.

Table 1. Chilean extension service (INDAP) contracts with different types of organisation, 1993-94

Type of organisation	Percentage of families attended	Percentage of all INDAP contracts
Private companies	42	60
NGOs	35	22
Campesino organisations	15	15
Universities/technical colleges	2	3
Municipal governments	6	n.a.

Source: Based on INDAP, 1995; Berdegué, 1994

These new funds are important to NGOs. At a time of declining external financial support the funds offer new, domestic sources of finance. However, the conditions which accompany the funds may imply new rules of operation (such as with market interest rates) and more intimate forms of state 'supervision' for NGOs.

The challenge of democratisation

The progressive transition to democracy and more decentralised forms of government in Latin America has had a further influence on relations between NGOs and the state. Democratisation initially bred optimism among many NGOs that they were now going to be able to participate in the definition of policy.² In practice, the 'space' for such participation has been more restricted than originally hoped. In some cases governments have continued to distrust NGOs. In others, such as Chile, where state capacity is strong, NGOs have been accorded less importance than had been predicted.

The transition to elected and progressively more decentralised government has also meant that traditional criticisms of the state by NGOs are now somewhat outdated. Indeed, financing agencies, previously sympathetic to the postures of critique and rejection, are now less inclined to support NGOs with this type of attitude. In addition, with democratisation has come the demand that NGOs reconsider their own structures of governance. One example is the demand that they should bring a broader range of actors from different sectors onto their boards and make themselves more transparent (Tandon, 1995).

The above changes suggest that the process of democratisation has not been quite the positive experience that NGOs had hoped for. In many cases it is now the NGO, rather than government, that is the unelected (indeed self-elected) institution. Equally, whilst government decentralises, many NGOs remain quite highly centralised.

New states, new donors

The practices of funding agencies have further moulded the new relationships between states and NGOs. Many multilateral and bilateral funders have encouraged greater engagement between NGOs and government. In some cases, such as Chile, donors which previously financed NGOs directly have shifted their support to government. From here, funds are channelled through financing mechanisms which facilitate the subcontracting of NGOs and other private actors. At the same time it is now standard practice for projects supported by international donors to include components in which project activities will be implemented by NGOs. These shifts in the channelling and conditions of development finance have been a direct incentive (indeed a force) encouraging NGOs to deal more closely with government.

Yet, as experiences accumulate, so does donor criticism of NGOs. This is evident both in documents and in corridor discussions. The donor view is that NGOs should modernise, professionalise, and democratise

(Edwards and Hulme, 1996). Unless they move in this direction, there may well be a fall in official direct funding for NGOs, with what finance remains being channelled to them via government. According to one official from a multilateral development agency in the Andes:

"There has been a reduction in the pressure on IFAD to increase the extent to which their projects are [directly] implemented by NGOs. In part this is because donor governments have ever diminishing resources dedicated to rural development, and perhaps also because projects implemented by NGOs have not proved to be significantly more efficient than those implemented by governments" (Haudry, 1994).

Roles and relationships

NGOs' experiences in forming new relationships with government have been mixed. On one side the pressures on NGOs to deal more closely with the state seem difficult to resist. Yet the new relationships do not appear to offer NGOs a new niche as actors in the discussion and formulation of policy - the tendency has been to exclude them from these arenas. There has been more opportunity for NGOs to play a role in joint NGO-state implementation and coordination of development. However, this type of relationship raises many questions regarding the function and identity of NGOs. To the extent that governments and donors tend to instrumentalise NGOs within policy and programme frameworks developed without NGO involvement, then the conundrum is especially acute.

Complicating the situation are two related factors: the sense that NGO-state relationships tend to be more effective and intimate when NGO and government share party political affinities; and the availability of new development funds channelled via the state to NGOs in the form of subcontracts. The latter encourages the emergence of organisations that, though call themselves 'NGOs', are to all intents and purposes either commercial ventures or the organisational manifestation of the survival strategies of professionals made redundant by changes in the state and the economic environment. These factors threaten seriously to undermine the legitimacy of the label 'NGO'.

3 CRISIS TENDENCIES AMONG LATIN AMERICAN NGOS

The significance of these changes is not only that they encourage the rethinking of NGO-state relationships but that, in doing so, they have also catalysed and aggravated more deep-seated uncertainties about the identity, legitimacy, and sustainability of NGOs. The following section elaborates on the nature of these uncertainties (or 'crises'), linking them to the new political and economic realities of the region. An analysis of these crises is important because it provides a basis for understanding and assessing the alternative pathways for NGO institutional change.

The NGO Identity crisis

The crisis of identity that afflicts many of Latin America's NGOs has different hues, but common origins. These origins lie in changes in the dominant political economic model for Latin America, the NGOs' loss of their own model for sustainable and progressive social change, and cultural change within NGOs themselves. The elements of these various changes are well known. In the 1970s and early 1980s, the dominant political model in much of Latin America was a bureaucratic authoritarian state, often repressive, socially exclusive but nevertheless interventionist. Within this context, NGOs forged for themselves a coherent identity. They were the '*organizaciones reivindicativas*', the 'claim-making organisations' of civil society. They resisted the state; they existed to support the popular sectors and propose alternative forms of development. To the extent that they did generate alternative political models, these assumed that the strong and interventionist state would remain but that it would come under a different form of social control, one that was more participatory.

This has not proved to be the case. Neo-liberalism and formal democracy have been evolving in Latin America for a number of years now. NGOs have found this change in the environment difficult to cope with and have been largely unable to forge for themselves a new role and new identity within this changed context. They can no longer base their identity on resistance and claim-making and their former, state-centred, alternatives seem less relevant. Instead, NGOs have found themselves becoming implementers of the state's programmes. This, many recognise, cannot be the basis of an institutional identity since it effectively turns them into nothing more than consultants.

Although many see the necessity for NGOs to establish some form of relationship with the state and donors (Bebbington and Thiele, 1993), the difficulty lies in knowing how to manage these relationships to avoid becoming instruments of other institutions' agendas. Arguably, one reason why NGOs have found this difficulty so hard to overcome lies in their general uncertainty about development models and the appropriate roles of market, state and civil society. This is an uncertainty that they share with many other institutions. But as actors whose definitions of development must be central to their institutional identities, this lack of clarity is particularly worrying.

A key question in this debate is how far institutional modernisation and professionalisation would corrupt the identities of NGOs.³ The forces for modernisation are very real, coming primarily from the younger NGOs and professionals who insist on the need for more analysis of impact, more monitoring and evaluation, more technical expertise etc. Older hands, who tend to hold important management positions in NGOs, argue that such changes must be approached with care. They maintain that in modernising and professionalising, NGOs may lose their Utopian visions and their capacity to question and propose alternatives.

The NGO legitimacy crisis

Related to this identity crisis, NGOs face a profound crisis of legitimacy. Popular organisations at all levels, from communities to national campesino confederations, now make many criticisms of NGOs. To the extent that NGOs traditionally drew on their relationships with the popular sectors for their legitimacy, these critiques are highly significant. Some criticisms are of the culture and structure of NGOs, namely: that NGOs refuse to be transparent and to relinquish control of projects and resources; that they exclude popular organisations from positions of power and policy fora; that they have no right to claim to represent the popular sectors; and that, in the end, their leaders are people with the same social origins as those who have always dominated the poor. Other criticisms are more operational: that only a small proportion of NGO funds reach the field; that their staff earn too much; and that NGOs are technically weak.

At the same time society at large, that traditionally knew little about NGOs, now understands them much more and has begun to add its criticism. In newspaper articles, editorials and special publications, one increasingly encounters criticisms that NGO staff earn high wages from international funds, are unaccountable to society, and that they engage in subversive activities. The barrage of criticism dealt out by the Bolivian press over the last year is a case in point (NOGUB-COTESU, 1996). The business community also complains (rightly or wrongly) that NGOs' non-profit status and receipt of foreign funds gives them an unfair advantage when bidding for contracts (Mendez, 1994).

Having been on the defensive for several years, Latin American states are also increasingly vocal in their views about NGOs. The Bolivian government reflects many of these concerns, particularly in the debate surrounding the recent Popular Participation legislation (Balcazar, 1994). For example, one can find state criticisms that NGOs are unaccountable, and that this is unacceptable in a democratic and modernising state, that NGO activity is often uncoordinated and chaotic and that NGOs are inefficient. One conclusion that is sometimes drawn from this is that NGO activity should be coordinated and supervised by the state (Balcazar, pers. com. 1995).

NGO legitimacy is therefore being questioned by a range of social groups, each of which is calling for greater social (or state) control of NGO activities. At a very minimum, to recover their legitimacy, NGOs will have to make themselves more transparent. At present it seems that it is only the donors whose belief in NGO legitimacy remains relatively firm (although even here criticisms are growing). This donor attitude creates its own problem since it enhances the sense that NGOs are intrusions beholden to outsiders rather than institutions grounded in their own societies.

The NGO sustainability crisis

This weak grounding in civil society means that, as currently constituted, NGOs are not financially sustainable. Traditionally, the activities of Latin American NGOs have depended on finances from the North. Yet

these funds - in particular those of the type that gave NGOs some flexibility in decision-making - are diminishing. One estimate is that by 1995 foreign support to Andean NGOs had fallen some 50% (Vetter, 1995);⁴ other estimates show similar declines in aid (DESCO, 1996). NGOs now increasingly depend on funds and contracts from governments and non-traditional donors. However, as discussed, this implies a deepening of the state-NGO relationship that many argue undermines the identity of NGOs as it entails them relinquishing control of their own agenda.

Another 'sustainability' problem for NGOs relates to staff salaries and the ability to retain staff. As the political reasons for working for NGOs — as opposed to the state, official aid organisation or the private sector - begin to weaken in the eyes of many, and as NGO salaries fall behind those in other sectors, so many high quality NGO professionals are departing to work for other types of organisation. This has left many NGOs severely weakened in a professional sense.

4 PATHWAYS OUT OF CRISIS?

Not only are Andean NGOs in some form of crisis, they are also in transition. The forces underlying this transition include:

- shifts in the structure of donor financing;
- the related looming financial problems faced by NGOs; the changing role of the state in rural development;
- a sense within NGOs of a need to renew their models and strategies in light of their limited impact; and
- a broader cultural change among development institutions.

It is conspicuous that the transition is only mildly related to NGOs questioning the basis of their legitimacy vis-à-vis the popular sectors, even though this is arguably the most critical challenge to which NGOs need to respond.

Of course, different NGOs have and will respond to pressures for change in different ways. In this section, several pathways of change are outlined. These are in part institutional changes one can already perceive, and in part predictions of the types of changes that might be expected to gather pace in the future. These pathways are not intended to be mutually exclusive - to varying degrees a number of NGOs combine all three.

From NGO to consulting group

As the pressure on NGOs' traditional sources of finance grows, it seems likely that they will look for their financial security towards the contracts and special funds becoming available from government and donor agencies. This process will inevitably lead NGOs to develop closer relationships with these new funders. NGOs will shift towards implementing programmes designed to a large extent to reflect the objectives of government and donor agencies, the implications of which are to turn NGOs - at least within the realm of implementing these contracts - into subcontracted

development consultancies. Particularly in the case of those NGOs contracted to implement field activities, the difference between them and commercial subcontractors will become blurred. Consequently, maintaining the label 'NGO', and a related tax-exempt status, will become difficult to justify.

For those NGOs that move along this 'consultancy' trajectory, their relationship with the state will become one of subcontractor, advisor, implementer etc. While some NGOs may be able to question the dominant institutions to a degree, their new financial dependency is likely to limit the scope for this. Such changes parallel the experience of the UK NGO 'Save the Children' which has found that its capacity to criticise the British government has been restricted the more government funding it receives (Bell, 1996).

Whatever the drawbacks of this option, transforming the NGO into a 'consultancy' does address some of the crisis problems outlined earlier. For example, it begins to resolve the problem of identity, in that the organisation clearly stands as a private consulting group working within, and with resources deriving from, the dominant policy framework. It also resolves the problem of legitimacy in that the organisation lives or dies on the basis of the quality of its work, with the 'contract' becoming the mechanism through which the NGO is accountable (to the contractor). Finally, problems of financial sustainability begin to be addressed through regular income from contracts, although many NGOs will have to increase their efficiency and staff quality in order to survive in this way.

Likewise, becoming a consultancy makes it far easier (legally and ethically) to increase staff salaries significantly in order to retain high quality staff. Indeed many NGOs initially created their consulting arms specifically as a means to pay their staff more.

The problem is that these are not traditional sources of legitimacy and identity for NGOs. Once an organisation begins to draw on these sources for sustainability it is difficult for the organisation to call itself an NGO in any traditional sense of the term. Indeed, once on this path, it would be difficult for the organisation to justify not converting its legal status to that of a 'for profit' entity, paying the same taxes and operating on a level playing field with other firms.

From NGO to social enterprise

It has been argued strenuously that one of the most legitimate and appropriate pathways out of crisis is for NGOs to become what has been termed 'social enterprises' (Zadek and Gatwood, 1995). As such, NGOs might engage in market operations in order to generate profits that would then be used for development work. For example, an NGO might have dual legal status - as a business and as an NGO — with profits from the business activities being used to finance popular development activities.

When Chilean NGOs began bidding for contracts from INDAP (the national agricultural extension organisation) for the provision of technical assistance to small farmers,

some hoped that this contracted service provision would be sufficiently profitable to subsidise the NGOs' other activities. In practice, this seems rarely to have been possible since the income from INDAP, being derived in a competitive bidding process, primarily covers the operating costs of implementing the contracts. Other examples of NGOs travelling down the 'profit-oriented' path include NGOs running print shops, publications businesses, even funerals (Bebbington and Rivera, 1994).

Alternatively, NGOs' 'development activities' might take place through market engagement: NGOs might work with poor people to improve the conditions upon which they deal in the market, ultimately changing the nature of the market itself (Zadek and Gatwood, 1995; Tiffin and Zadek, forthcoming).

Both these two paths (and options in between) have been followed by a limited number of NGOs in the Andean region. In both cases, the primary aim of the NGO as social enterprise is to build the financial basis for institutional sustainability. However, this path can also be construed as part of a theoretical reformulation of the bases for sustainable development. Learning from the recognition that the economic impact of many NGO projects has been limited (van Niekerk, 1994), NGOs are slowly and unevenly coming to the conclusion that any option for sustainable rural development must be built on increased production of wealth from the popular economy. At the same time there must be a renegotiation of market relationships such that this wealth is reinvested within the region in which it was produced. The creation of the NGO as a social enterprise should, therefore, be seen not only as a means of ensuring institutional sustainability but also as a mechanism to stimulate more inclusive rural development.

A number of these 'social enterprise' NGOs have existed for some time, especially in the area of product marketing. Examples include MCCH and the *Tiendas Camiri* in Ecuador, and *Candela* and *Antisuyo* in Peru. More difficult has been building social enterprise NGOs around the marketing of services, for instance the provision of technical assistance to poor farmers. There appear to be two main reasons for this: (i) small farmers frequently fail to recognise sufficient value in many agricultural extension type services and are therefore reluctant to pay for such services; and (ii) the long-standing tradition of receiving such services free-of-charge undermines any willingness to pay (Bebbington and Sotomayor, 1997).

One service which it has been possible to provide through the market has been rural financial services - especially credit. Particularly as a result of recent changes in government regulations concerning financial services, this is a sector into which a growing number of NGOs are moving, either individually or in consortia. The attraction is that financial services (credit, savings, insurance etc.) are sought by many rural people, and donor resources are available to help create new institutions for financial service provision. NGO involvement in this area can, therefore, have a significant

impact on rural poverty and livelihoods (if the NGO efforts are successful and on a large enough scale).

More pragmatically, people are willing to pay for financial services, and under certain scheme designs, rates of repayment can be very high. In Bolivia, for example, the last decade has seen the emergence of a number of large NGO-based credit schemes. Examples involving consortia of NGOs include ANED (the *Asociacion Nacional Ecumenica del Desarrollo*) — a group of some 25 NGOs and churches that began to work in financial services in the late 1980s — and FADES (the *Fundacion Alternativa de Desarrollo*) which was created by seven NGOs in the 1988. Schemes operated by individual NGOs include the Fund for Communal Development (FONDECO) - created by CIPCA but now independent - and Sartawi which began its credit programme in 1991 (Rojas, 1995). The magnitude of lending by these NGOs is indicated in Table 2.

Over the years many credit schemes have grown significantly. In part this represents an attempt by the NGOs to seek financial sustainability by spreading fixed costs over larger portfolios. Rojas (1995) estimates that NGOs in Bolivia have lent some \$32 million since they began operations and that NGOs and related institutions account for 20% of all rural credit. The tendency seems to be for these credit-providing NGOs to continue to grow in line with increases in the opportunities to access funds from central banking institutions. In Bolivia, the *quid pro quo*, however, will probably be that as the availability of funds from second tier banks increases, so will the extent to which the state supervises these credit providing NGOs through its own regulatory structures.

Another variant of the social enterprise model is one in which the NGO shares business risk with the rural poor in some form of co-owned and/or co-managed arrangement. For instance, with the recent privatisation of Bolivia's dairy plants, the NGO FIE has purchased a processing plant jointly with local producers. Such a relationship, in which the NGO has a direct stake in the success of a local venture, is likely to induce greater effectiveness, professionalism and pragmatism within the NGO (P. Ramirez and R. Haudry de Soucy, pers. comm. 1996).

Overall, the social enterprise pathway offers a response to some of the dimensions of NGO crisis outlined earlier. The identity of the NGO becomes that of an institution ensuring that financial and economic services reach the rural poor on a wide scale (even if this in some sense implicates the NGOs in the broader model of structural adjustment that most of them criticise). The legitimacy of the NGO comes from its efficacy and efficiency in delivering such services and its financial sustainability comes through the income generated.

Again, though, these new social enterprise institutions can no longer be considered as NGOs in the traditional sense of the term. Yet, these institutions are also neither wholly state- nor wholly market-driven. They combine a commercial and a social logic in their operations which

Table 2. Credit portfolios of NGOs providing financial services in Bolivia, late 1994

Institution	Accumulated lending (US \$ 000)	Current loans (US \$ 000)
ANED	3,553	1,700
FADES	4,758	2,185
FONDECO	4,352	3,111
SARTAWI	3,500	1,100

Source: Adapted from Rojas, 1995.

allows them to play a sustainable role which is open to neither the state nor the market.

NGOs operating as social enterprises face some clear challenges. One lies in attaining the administrative and economic efficiency required to be financially sustainable, not simply as an enterprise but as a 'social' enterprise which must subsidise non-revenue generating activities from profits made elsewhere. Another is accommodating the fact that this approach - particularly the large-scale credit NGO approach - carries the seeds of a quite new model of development and with it a new sense of institutional mission.

For example, in order to be sustainable, self-financing credit funds tend to work with larger loans, to work with the same borrowers year after year, and to avoid lending to the poorest of the poor. This is because giving larger loans to reliable clients, who are already known and for whom background information already exists, reduces transaction costs and the risk of default. Financial service institutions tend to pursue such an approach as they find it essential to reduce unit costs in order to be profitable, something which many donors are increasingly demanding (Schmidt and Zeitinger, 1995). These factors are likely to foster a degree of social differentiation among rural producers — a tendency many NGOs have traditionally sought to resist through promoting more collective and poverty-oriented economic institutions such as group loans for the poorest.

Associating with popular organisations

In the rush to define a new role for themselves, and in the midst of 're-engineering', strategic plans, and institutional modernisation, some worry that NGOs have lost important babies along with the muddy bathwater that they have thrown out of their windows. It may be that to be claims-oriented, isolated from the state, and excessively ideological are now inappropriate stances for NGOs to take. However, there were other principles (at least in theory) that underlay what it was to be an NGO in those early years of resistance to authoritarianism and repression. It is possible that these could still embody what it means to be an NGO today. The essence of these principles lies in close association with the popular

sectors and in NGOs playing the role of innovator in a way that strengthens popular organisations.

This 'return to first principles' is another pathway out of the current crisis. It is evident among a number of Latin American NGOs. It entails placing less emphasis on financial survival and more on a process of reflection which helps to identify and restore those founding principles of NGOs which are still relevant to the 1990s. Legitimacy and identity are sought through strengthening relationships with the popular sectors.⁵ This path implies that NGOs are not legitimate actors in their own right. They cannot simply chose to operate according to their own agendas. Rather, their role is to support popular organisations in the elaboration of development alternatives that the popular sector itself proposes and carries forward.

Of course, recovering legitimacy vis-à-vis the popular sector is not, in and of itself, adequate. NGOs must also recover legitimacy vis-à-vis the state and society at large so that they may play a role in facilitating more creative relationships between state, popular organisations and society. This is unlikely to be possible unless NGOs become more professional (ie. unless they move part of the way down the path implied by the consultancy and social enterprise options).

The 'return to first principles' path leaves two further questions hanging: (i) how will the challenge of financial sustainability be addressed; and (ii) what development alternatives exist?

Financing links with popular organisations

In the short-term, it may be that closer links with popular organisations could be financed by those same donors which have traditionally sponsored more radical approaches to development. In the longer term, however, alternative financing strategies are likely to be necessary. These strategies should be more organically linked to NGOs themselves and to the societies of which they are a part. Only in this way will the activities of NGOs be buffered from the vagaries of international aid flows.

This is easier said than done. Funding channelled via the public sector is unlikely to support work that is

in many respects critical of dominant government policy. Once again, an alternative option is to adopt the 'social enterprise' mechanism for self-financing. Here, then, there is explicit scope to combine different pathways.

Another potential strategy is to establish civil society financing mechanisms in which businesses and other bodies are persuaded to create endowed funds. There is some precedent for this. In the North organisations such as the Ford Foundation play this role. Within Latin America there are similar examples, though they are much fewer in number.⁶ Of course, for this to occur on any larger scale will require a change in business culture in the region; although recent initiatives suggest some change is afoot, Latin American business is not famed for its sense of social responsibility.

Donor agencies have also contributed to the endowment of special funds for the environment.⁷ With the establishment of such funds, financing is in some sense insulated from the unpredictable fluctuations noted above. It may not be easy for donors to contribute to such endowments (as opposed to year-by-year projects), but it has been shown to be possible. Ultimately, it might be argued that it is only if donors could move away from project funding to building and endowing domestic financing institutions that their resources would have any sustainable impact in the Andean region.

Development alternatives?

Some years ago, Marc Nerfin (1987) laid out four principles of alternative development: a focus on needs orientation; fostering self-reliance; promoting ecological sustainability; and empowering people to transform their societies. While attractive in sentiment, these principles do not seem sufficiently pragmatic to underlie a response to the current challenges facing the campesino and popular economies in the Latin American region. Little attention has been paid to thinking through new, inclusive forms of growth within the popular economy and the activities which are required to achieve these. Alternatives need to be sought, therefore, in the areas of rural production, income and employment generation, and in identifying mechanisms for productive reinvestment in the local area (Klein, 1993; de Janvry and Sadoulet, 1988).

The alternatives that demand the most urgent NGO attention are, therefore, somewhat different from those of the past. Rather than rethinking politics, the challenge is to experiment with new relationships between the campesino economy and private enterprise. Over the past decade, NGOs have had to re-align their relationship with the state. In the next decade, they must rethink their notions of, and relationships with, the market and private capital. This brings us back once more to the possibilities for social enterprises to link to and alter the market which were outlined above.

5 CONCLUSION

The challenges currently faced by the NGO sector in Latin America draw our attention to the links between

the prevailing political economy and the composition of actors in civil society. The rise of the NGO sector in Latin America was driven in large measure by the emergence of particular regimes in the area coupled with the fact that Northern states and civil organisations were willing and able to channel resources in support of the non-governmental organisations which opposed these regimes. The current transition in the NGO sector is likewise driven by political and economic shifts in Latin America - adjustment, democratisation and public sector reform - and by changes in aid policy and financing.

The transition - and related crises of identity, legitimacy and sustainability - is painful. It may, however, result in an NGO sector that is more financially sustainable and more appropriate to the wider institutional environment of which it is a part. While it would be going too far to argue that the NGO sector is a creature and a creation of Northern financing agencies, it is true that NGOs are dependent on external resources, and to some extent - except in their very earliest moments - have come to represent institutional forms governed more by external relationships than by relationships within their own societies. In this sense, in their present form, they are institutions that cannot possibly be sustainable.

It is in the context of these relationships with local societies that we should understand Latin American NGOs. In the absence of a much-needed model for Latin American development (based on domestic factors and funding for NGOs), the movement of NGOs towards becoming consultant groups, social enterprises or financial service institutions, represents an effort on the part of NGOs to identify more sustainable ground. This ground lies between the logic of the market and the reality of campesino needs and development. At the same time the movement of NGOs in these directions helps to resolve their problems of legitimacy and identity which might otherwise threaten future coherence and viability.

Such institutional shifts will require quite profound transformations within the NGO sector: changes in legal status, efficiency, professionalism and attitude. However, some commentators argue that there is little alternative and that it is only through making such changes that NGOs can have a significant impact on Latin American poverty (though it seems likely that current processes of economic liberalisation and trade integration will, other things being equal, lead to further damage to rural livelihoods in the Andes) (Zadek and Gatwood, 1995; Tiffin and Zadek, forthcoming). As evidence, some early assessments of the impact of community-based banking and financial services show promising results, especially for women.

If NGOs opt to 'return to first principles' they will also need to make important changes. These include changing the nature of their relationships with popular organisations so they are built upon accountability, trust, responsiveness and solidarity. If this can be done, NGOs

will be in a position to address their problems of identity and legitimacy. If they follow this path, it will, however, be far harder for them to resolve their problems of financial sustainability. Popular-orientated NGOs will therefore continue to need the support of traditional NGO donors. Arguably, this is precisely the area in which future donor support would best be concentrated.

The potential impact on rural livelihoods of this option is, however, likely to be less direct than with the option of transition to a social enterprise. Localised experiments with campesino controlled production and trade-based social enterprise, for example, suggest significant livelihood impacts — albeit with a certain concentration among the middle poor as opposed to the poorest of the poor (Bebbington, 1996). This may affect donor decisions to finance NGOs which opt to return to first principles rather than to develop into social enterprises. Nevertheless, recent literature on social capital and development suggests that strong social organisations and a strong civil society can have significant positive impacts on regional economic development (Putnam, 1993). This line of enquiry certainly merits more analysis.

The existence of NGOs can be construed partly as a response to state failure, partly as a response to market failure, and partly as a response to weaknesses in popular organisations. On some occasions NGOs have acted more like state organisations, on others more like allies of popular organisations, and on still others (though less frequently) more like (socially oriented) market actors. This mixing of roles has never been easy and it has contributed to the crises that Latin American NGOs now face. In the future, NGOs will probably have to focus increasingly on one or other of the primary roles outlined above (consultancy, social enterprise or popular organisational support mechanism). By clarifying the nature of their role they will clarify the basis of their identity, legitimacy and financial security. As they do this, many may cease to be NGOs in the traditional sense of the term. It might then be better if they were no longer termed as such in order that the validity and legitimacy of the denomination 'NGO' can be sustained.

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ENDNOTES

1. This is true not only of national funds. Increasingly individual projects and programmes incorporate special funds for subcontracting or financing project activities through civil society organisations.
2. Especially true for those NGOs linked to the political parties elected into power.
3. A particularly acute instance has been the recent discussions of re-engineering in the NGO DESCO in Peru. In response to its own institutional problems, DESCO has discussed the idea that it may turn a number of its units into autonomous businesses that would then exist under a wider DESCO umbrella. Some staff have also pushed hard for DESCO to be more explicit and rigorous in its strategic planning, to be more competitive in the salaries it pays, to assess staff performance more carefully etc. as part of a strategy aimed at making DESCO a more competitive and 'modern' NGO. Other members of DESCO have, however, questioned and resisted these efforts on the grounds that they will transform the historic character of DESCO.
4. Unfortunately Vetter does not give the time period to which this figure referred.
5. The 'consultancy' and 'social enterprise' responses seek neither NGO legitimacy nor identity in the relationship with the popular sectors.
6. Initiatives include: the creation of the Grupo 2021 in Peru; the social investment programme of PDVSA, the national petroleum company of Venezuela; the social programmes of the *Fundación Social* in Peru; *Fundación Esquel* in Ecuador; the social programme

of the *Fundación Andes* in Chile; the 1995 international conference on business and social responsibility held in Colombia; and publications of the World Business Council for Sustainable Development.

7. For example, the trust fund created in Bolivia for financing the recurrent costs of the National System of Protected Areas.

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