

Aid, Incentives, and Sustainability

An Institutional Analysis of Development Cooperation

SUMMARY REPORT

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Foreword

– Does ‘aid’ itself create incentives that undermine sustainability? This is the provoking question underlying the present study, which explores how the incentives that arise in the system of development co-operation affect sustainable outcomes.

The point of departure is the view that many development problems in countries where foreign ‘donors’ operate are caused by weak or so-called perverse incentives for local actors to engage in collective action for their common goals. These problems are to a large extent caused by unfavourable institutional circumstances. Sustainable solutions to such problems require institutional conditions that shape incentives for collective action, and development co-operation may promote the creation of such favourable institutions. However, it may also create or reinforce perverse incentives that prevent sustainable outcomes. In order to better understand any such ‘donor’-imposed constraints to development, Sida’s Department for Evaluation and Internal Audit, which is an independent department reporting directly to Sida’s Board of Directors, commissioned the present study. It was conducted by a research team from the Workshop in Political Theory and Policy Analysis at Indiana University, headed by the internationally acknowledged political scientist Professor Elinor Ostrom.

The contribution of the study is manifold: First of all, it introduces an institutional perspective on development and development co-operation that is partly novel to Sida and the rest of the ‘aid’ community. This perspective highlights the role of incentives and increases our understanding of incentive problems within developing-country contexts as well as within the system of ‘aid’ itself. Secondly, the study provides a method and tools for institutional analysis and evaluation of the relationship between ‘aid’, incentives and sustainability. It illustrates theoretically how these tools can be used to analyse incentives within the complex system of ‘aid’, associated e.g. with ‘donor-recipient’ negotiations and with different ‘aid’ modalities. Finally, the study applies the method empirically, by initiating an analysis and evaluation of the incentive structure and its causes within Sida and five Sida-supported projects in India and Zambia. The empirical analysis is based on interviews of more than 175 persons within Sida and Sida-supported activities, a thorough literature survey and on case studies. The study concludes by drawing lessons and recommending Sida an agenda for action.

A central argument of the study is that Sida can contribute to more sustainable outcomes, through 1) a more explicit and systematic understanding of incentive problems and their institutional causes in the local development contexts as well as those created by the very system of development co-operation; 2) the creation of incentives within Sida that encourage individual and organisational learning about sustainability; and 3) the devolution of genuine ownership to the actual target population.

In addition to a comprehensive main report, the contents, findings and recommendations of the study are briefed in a summary report.

Stockholm, May 2002

Eva Lithman

Director

Department for Evaluation and Internal Audit

Sida

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We have benefited greatly by the opportunity to work with one of the world's leading development assistance agencies – Swedish International Development Cooperation Agency (Sida) – to examine how incentives could lead well-intentioned individuals to produce results that at times were unintended and counterproductive. The questions being asked here are of relevance to all who are interested in how to enhance development processes. When individuals trying to do good find themselves hampered in these efforts by the incentives they face, it is quite important that one steps back to examine what these incentives are and how they can induce behavior that slows down development rather than enhancing it.

We are deeply indebted to all of the individuals who gave us substantial time when we talked with them or helped to dig out documents, data, and archival materials. We interviewed over 100 Sida staff members, consultants working for Sida, and officials at the Swedish ministries of finance and foreign affairs.

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Elinor Ostrom

Principal Investigator

Chapter 1

The Problems of Aid, Incentives, and Sustainability

Recent studies of development assistance programs conclude that despite tremendous efforts and good intentions, aid has produced disappointing results. Sida, along with other bilateral and multilateral aid agencies, has indicated that the lack of proper incentives generated by aid itself may be an important factor undermining its sustainability.

This Summary Report draws on our Main Report¹ and explores how the incentives that arise in the system of development assistance affect the goal of sustainable development. We employ the Institutional Analysis and Development (IAD) framework to analyze the system of aid. We review institutional theories regarding the sources of perverse incentives in development aid and in development. We present findings from our field cases. Finally, we recommend strategies to mitigate some of the perverse incentives often found in development assistance systems.

Development assistance attempts to alleviate the consequences of collective-action problems that have not been solved by individuals living in developing countries or their governments. To be sustainable, development assistance involves tackling underlying collective-action problems themselves.

- A collective-action situation occurs whenever two or more individuals associate to produce something of value together, when it would be difficult to produce it alone.
- Collective-action problems occur when a lack of motivation, and/or missing or asymmetric information, generates incentives that prevent individuals from satisfactorily resolving a collective-action situation.

A successful approach to the problem of development must focus on how to generate appropriate incentives so that the time, skill, knowledge, and genuine effort of multiple individuals are channeled in ways that produce jointly valued outcomes.

¹ Elinor Ostrom, Clark Gibson, Sujai Shivakumar and Krister Andersson. 2002. *Aid, Incentives, and Sustainability. An Institutional Analysis of Development Cooperation*, Main Report. Sida Studies in Evaluation 02/01. Stockholm. Swedish International Development Cooperation Agency (Sida).

Incentives, both material and nonmaterial, are generated within institutions – the rules of the games of life and productive coexistence. As a society forms more robust complexes of institutions that help individuals resolve their collective-action problems, it displays the economic and human development characteristics of a rich society. The challenges facing any society are apt to change. Thus, solutions to collective-action problems must remain adaptive; a demand for institutions that match contributions with rewards always exists. This is especially true in developing countries, where the institutional environment is usually less able to overcome motivational and information problems.

International development assistance is intended to help the people living in less-developed countries overcome poverty resulting from the wide diversity of often-unresolved or poorly-resolved collective-action problems. Unless development aid properly addresses the incentives of underlying collective-action problems, it will likely be ineffective or, worse, even counterproductive.

Several key concepts are employed in this report, including:

- *Institutions* are formal and informal rules that are followed by most affected individuals. Such rules structure incentives in all forms of human exchanges.
- *Incentives* include the rewards and punishments that are perceived by individuals to be related to their actions and those of others.
- *Development* and *development cooperation* refer to improving the material conditions of individuals, often through processes of deliberate intervention.
- By *sustainability*, we mean the longevity of development cooperation's benefits, rather than particular projects or activities themselves.
- *Ownership* in the development assistance context encompasses four dimensions: enunciating demand, making a tangible contribution, obtaining benefits, and sharing responsibility for long-term continuation or non-continuation of a project.

Chapters 2, 3, and 4 present our framework and theories derived from an institutionalist perspective on development assistance. Chapter 5 describes the incentives generated by different kinds of aid. In Chapters 6 and 7, we delineate the incentives confronting Sida staff and contractors. Case studies of Sida-sponsored activities in India and Zambia are explored in Chapters 8 and 9. In Chapter 10, we present our recommendations.

Chapter 2

Understanding Unproductive Situations at the Operational Level

Institutional analysts often refer to dysfunctional situations. These situations generate counterintentional and counterproductive outcomes for the actors within them and for others affected by them. In this chapter, we review the most generic, pervasive, and unproductive situations that frequently characterize developing country contexts (although they may appear anywhere).

The Institutional Analysis and Development (IAD) Framework

The study of development policies requires a theoretical approach that has considerable empirical support. The Institutional Analysis and Development (IAD) framework meets these demands and provides a strong basis from which to analyze incentives within dynamic, interactive, and multiple-level phenomena, such as those found in development assistance.

General Elements of the IAD Framework

At the most basic level, as shown in Figure 2.1, we need to analyze:

- The *arena* that is of direct relevance to the problem being examined;
- The *context* that frames and affects that arena (including other relevant arenas.) The context provides the initial conditions or “the environment” that structures the efforts to achieve outcomes. It is within that context that an analyst can identify an action arena and its *incentives*;
- The *behavioral interactions* and outcomes that are likely to emerge. Actors act and interact based on perceived incentives, with their activities, in aggregate, generating patterns of *outcomes*;
- The *evaluation* of the interactions and outcomes using multiple criteria made by participants and by external analysts.

Figure 2.1: The Most General Elements of Institutional Analysis



Decomposing the Elements

When conducting a specific analysis, all of these elements are decomposed into finer categories of analysis as discussed in our Main Report.

- The *context* includes physical conditions, rules-in-use, and the attributes of a community.
- The *action arena* is a complex conceptual unit containing one set of variables about an *action situation* and a second set of variables about an *actor*.
- An *actor* can be either a single individual or a group of individuals who have a regularized way of making decisions, such as a firm or a government.

All of these processes can occur at any of three levels of analysis: the constitutional level, the policy making (or collective choice) level, and the operational level.

Motivation and Information Problems

Basic incentive problems, which we call motivation and information problems, result from both the nature of the goods and services involved in development assistance as well as the relationship between actors. Motivation and information problems exist at the operational, collective choice, and constitutional levels. We first focus on motivation and information problems at the operational level. These basic problems need to be solved if the goals of development assistance are to be achieved. Problems of motivation include those involved with public goods, common-pool resources, and the Samaritan's Dilemma.

- **PUBLIC GOOD** problems occur when an individual's consumption of a good is not affected by his or her contribution to producing the good. In such situations, an individual has an incentive to *free-ride* – to enjoy the good without contribution. Consumption of the good by one individual, however, does not exclude others from consuming the good as well. National defense is considered the epitome of a public good problem, but donors often help to provide other public goods such as environmental protection and education.
- **COMMON-POOL RESOURCES** share the difficulty of exclusion with public goods. Unlike public goods, however, one person's use does subtract from

the resources available to others. Thus, the problem concerning common-pool resources is that without effective institutions, too many users overharvest. Many natural resources are common-pool goods, but other goods with which donors are frequently involved have common-pool attributes, like the electricity grid of a country.

- **THE SAMARITAN'S DILEMMA** occurs when an actor who is deeply concerned about the well being of others confronts situations in which other actors are in serious need of help. The Samaritan is faced with choosing to help or not. The recipient, on the other hand, decides how much effort to expend on his or her own behalf. If the Samaritan extends help and the recipient exerts high effort, the Samaritan will be benefited substantially as will the recipient. The recipient, however, would be even better off if they expend low effort. Samaritans are faced with the puzzling problem that their best strategy is always to extend help, but reciprocating with high effort is not the best strategy for the recipient. This dilemma is clearly relevant to development assistance, especially the upkeep of infrastructure.

Missing or Asymmetric Information

Missing and asymmetric information also plague development assistance by creating incentives that do not facilitate successful outcomes. With missing information, actors do not know the complete structure of the situation they face. They may be missing information about some of the actions they could take, about the linkages of actions to outcomes, and about material or intrinsic pay-offs. This can occur in development assistance, for example, if local knowledge is not included in the design and implementation of a project or program. Asymmetric information also generates poor incentives including those of principal-agent problems, moral hazard, and adverse selection problems.

- **PRINCIPAL-AGENT PROBLEMS** exist in all hierarchies, where subordinates know more about what they do than their superiors. The goals of the subordinate and superior differ. This combination of asymmetric preferences and asymmetric information about a subordinate's actions gives rise to inefficient outcomes that increase with the layers of a hierarchy (like all IDAs and governments). Employees will not necessarily choose the means or the ends that their managers prefer.
- **MORAL HAZARD PROBLEMS** exist in a wide variety of settings where individuals are guaranteed a benefit or protected against loss once an initial contract has been entered, regardless of whether they take the proper level of effort to realize the benefit or avoid the loss. Governments (or communities) receiving donor financial aid may make solemn promises to reform their own institutions, but may avoid following through. The availability of aid creates a moral hazard, since the aid helps to ensure incompetent governments from the results of their actions, thus weakening their incentive to find alternative revenue sources or better policies.

- **ADVERSE SELECTION PROBLEMS** also occur when information is hidden, leading to the selection of the worst individuals or components. For example, if donors do not demand repayment of loans, recipient governments will not work hard to select projects that generate high returns in order to ensure they can repay future loans. Bad projects can begin to replace good projects.

Overcoming Motivational and Informational Problems

Overcoming motivational and informational problems at the operational level is not easy. Individuals living in donor countries frequently enjoy more favorable institutional conditions to self-organize and to solve motivational and informational problems than individuals living in many recipient countries. In most developed countries, entrepreneurial individuals can solve many collective-action problems within a well-developed property-rights system backed up by effective courts and governance systems at multiple levels. By relying on family, kin, and friends, individuals in developing countries are able to undertake a wide variety of small-scale activities that enhance their economic well-being. These arrangements are often limited to the “informal sector” and to relatively small-scale enterprises.

Achieving increasing economic productivity and poverty reduction requires helping those involved and their political leaders change the structure of the situations they face so that the problems of motivation and information are effectively counteracted.

Chapter 3

Changing Operational Rules in Policy Situations: What are the Incentives?

Many operational-level problems are solved through informal face-to-face discussions framed within the basic rules-in-use. They enable the participants to agree upon coordinated strategies and develop shared norms. Coordinated strategies and shared norms are not sufficient to solve all collective-action problems because the roots of the particular collective-action problems at the operational level are often linked to processes at the policy, or even constitutional, levels of decision making. Unless the incentive structures at the policy and constitutional levels are aligned with the incentive structures at an operational level, chances are that local people's efforts to construct and sustain institutional arrangements for collective action will fail.

Development in high GNP countries has taken place because many of these basic operational problems are managed within a broad set of institutional arrangements that facilitate a wide diversity of enforceable contractual arrangements.

When embedded in an open public realm that has an effective property-rights system and an accessible and fair court system, individuals can build trusting relationships that enable them to increase the benefits that they can jointly obtain. In aid-recipient countries, however, such institutions are often missing, weak, or bad.

Missing, Weak, and Bad Institutions

When essential institutions, such as effective property-rights systems and fair court systems, are missing, weak, or bad, problem-solving individuals often must deal primarily with their own family and networks of friends and neighbors. In countries with weak or bad institutions, the institutions of the public sector may actually impede the search for collective solutions or even make the problem worse.

Missing, weak, or bad institutions are often the result of perverse incentives at the policy-making level where we again find basic problems resulting from motivational and informational sources.

Motivational and Informational Asymmetries

Rules are public goods: the use of a rule by one person does not subtract from the availability of the rule for others, and all actors in the situation receive the benefit in future encounters regardless of whether they spent any time and effort trying to devise new rules. Designing effective rules to solve a wide variety of problems at multiple levels takes substantial time and effort and is often underprovided. Developing countries may face, on the other hand, excessive rules copied from other countries that are difficult to implement.

Rules are rarely neutral in their allocation of resources. Policies in countries with weak government accountability are likely to create benefits for officials while providing perverse incentives at the operational level. Even with public-spirited individuals in powerful positions, the lack or distortion of information from the operational to collective choice to constitutional levels can generate poor rule choices. When those powerful individuals have to worry about things besides the most efficient policy – such as their own incomes or electoral chances – the rules they create will be that much further away from those needed for effective and sustainable outcomes.

Overcoming Motivational and Informational Asymmetries

A major difference between developed and developing countries is the prevalence of dysfunctional situations in the latter. Many unproductive outcomes in policy-making situations are not evident in the more developmentally advanced societies where participants engage in ongoing efforts to improve performance of outcomes by changing the rules that are used in these situations.

Given that changes in the rule-structuring situation can also change the distribution of benefits – and in this way greatly advantage some participants while hurting others – the process of changing rules is never a simple path towards more efficient and fair outcomes. The broad trajectory in the more developed countries has been, however, toward creating nested sets of institutional arrangements that together tend to create many situations that generate positive outcomes for most participants.

When a donor enters a recipient country to try to help, it enters a diversity of operational and policy situations that are already difficult and adds to the complexity of the prevailing incentive structures.

Enter the Donor

Donors must enter a recipient country and interact with officials and citizens in a diversity of operational and policy situations. The donor always adds at least a second layer to the original action. The donor's presence, whether intentional or not, alters or exacerbates, for better or worse, existing incentives. In many cases, these changes in the incentive structure linger only as long as the donor remains an active player. On the other hand, in some cases, the change may linger for a very long time (see Gardner and Waller in the formal game-theoretical analysis in Appendix B to the Main Report).

One of the unintentional impacts of development assistance can be the result of moral hazards introduced by the aid process itself. Even the formulae used in determining the appropriate level of aid are not incentive neutral. Many donors, including Sweden, for example, have used financing gap models. However, such models give recipient countries an incentive to maintain or increase the financing gap by low-savings (i.e., high consumption) so as to get more aid. At a policy-making level, many Sida projects involve aid negotiations or dealings with recipient country officials who, in turn, can decide on the merits of alternative projects. (After all, local officials are encouraged to see themselves as owners of each project.) However, these officials, as agents, can have their own interests at heart.

Chapter 4

Incentives across Situations: The International Development Cooperation Octangle

The System of Development Assistance

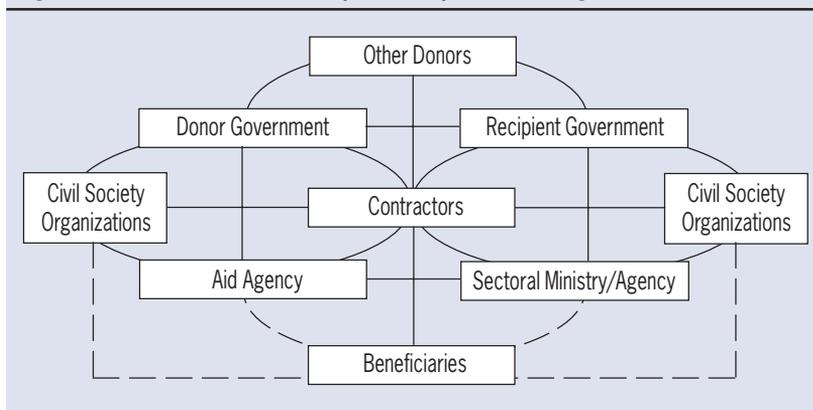
Situations link within a system. Sometimes the system is contained entirely within one organization and is represented in a simplified form by an organization chart. For international development assistance, the set of linked situations cross many organizational and even national boundaries. The effectiveness of a given system depends on the way its action situations are linked together. An effectively structured federal governance system, for example, links national, regional, and local units so that each can undertake those activities for which it is most efficient.

Development cooperation can similarly be thought of as a system or network of linked action situations. The conventional way of thinking about these linkages is as a “chain of aid delivery.” To understand the incentives of development cooperation, it is more appropriate to view it as a set of nested situations that may take on any of a variety of productive or unproductive relationships. We characterize these relationships as the International Development Cooperation Octangle – or “the Octangle,” for short.

The Octangle

The Octangle features the eight major actors of development cooperation nested within a system: (1) donor government; (2) recipient government; (3) other donors; (4) a donor’s international development agency (IDA); (5) recipient government’s ministries and agencies; (6) third-party implementing organizations (e.g., NGOs, private contractors); (7) organized interest groups and civil society organizations within the donor and recipient countries; and (8) targeted beneficiaries. These actors’ major linkages are presented in Figure 4.1.

Figure 4.1: The International Development Cooperation Octangle



The incentives of officials at all levels need to be taken into account when planning donor-assisted projects and programs. If these are not overtly analyzed, a project that initially looks like it will provide help to needy people may instead be viewed with suspicion and undercut by those that view the activity with a different set of incentives.

Exploring the full set of relationships among the major actors involved in international assistance allows the examination of how “the system” as a whole might create positive or negative incentives for individual action.

Relationships within the Octangle

One core relationship is that between a donor and the recipient government. In many situations, there is a great asymmetry in their bargaining power. A weak recipient is one who is dependent on aid and lacks sufficient capacity in economic planning and project administration. Such a recipient may not make much effort to prioritize its needs in seeking assistance and will accept any plans presented by a strong donor. In such cases, negotiations between the two nominal sovereigns can be turned into a principal-agent situation where the donor, as principal, specifies what the recipient country, as agent, must do if it wants to receive development assistance.

In other situations, there is relatively less power asymmetry, i.e., a strong donor and strong recipient. The presence of a strong recipient does not necessarily translate into more sustainability. When the recipient country is governed by officials who are primarily interested in seeking out opportunities for private gain, and few institutions are in place to keep these motivations in check, moral hazard problems can become substantial. If a donor is “enlightened,” it will try to designate recipients as owners for each aid intervention. Sweden has tried to avoid playing the strong donor-weak recipient game. It has sought to encourage ownership of development projects by recipient gov-

ernments through establishing country frames for long-term investments, and through providing technical assistance so that recipients can build their own competence over time.

It turns out to be extremely difficult to engage in dyadic negotiation processes where the donor has access to the funds that the recipient really wants while, at the same time, providing full ownership to the recipient. To avoid the Samaritan's Dilemma, donor governments need to have more control over the process; this control is in tension with devolving ownership to recipients.

Ownership in development aid, as generally practiced, does not contain the four conditions of ownership we argue are necessary for sustainable outcomes:

1. Beneficiary owners need to enunciate a *demand* for aid;
2. Beneficiary owners need to allocate at least some of their own assets to the project or program so that they have a real stake in the way their own and other actors' assets are used;
3. Beneficiary owners need to obtain *benefits*;
4. Beneficiary owners need to have clear-cut responsibilities and be able to *participate in decisions* regarding continuance or non-continuance of a project.

Other Principal-Agent Relationships

In addition to the two-sided and three-sided relationships among sovereign governments, a series of principal-agent relationships exist within the ministries of the donor and recipient governments. All of these, in turn, have additional principal-agent relationships within their agencies and with those contractors that are responsible for carrying out a particular project. In Sweden, for example, the Finance Ministry and the Foreign Affairs Ministry play a major role in developing foreign aid policies and disbursement priorities. In turn, Sida, as Sweden's International Development Cooperation Agency, assumes major responsibility for managing development programs. The likelihood of moral hazard problems within the involved donor agency is often more severe than for other public sector bureaucracies as there is often little correlation between the level of individual effort and the effectiveness and sustainability of aid.

The recipient country, correspondingly, may specify a single agency, such as the Indian Department of Economic Affairs in the Ministry of Finance, or authorize several internal ministries or agencies to coordinate its aid policy and to undertake the detailed negotiation and oversight of foreign aid programmes and projects. Principal-agent relationships also occur between political leaders and bureaucrats. The political leaders of a recipient country may wish to conduct public affairs in a way that benefits a small clique of influential supporters. Bureaucrats are more likely to be worried about their

own careers, especially in countries with small private sectors. In the donor country, politicians may be interested in their political survival and in convincing the public that taxpayer dollars are being spent in a wise and efficient manner. Politicians tend to stress the progress that foreign aid is achieving. Officials in a donor country's IDA face their own incentives related to administering a set of programs for which there are often few known successful technologies or even reliable measures of progress. One of these incentives is to spend allocated budgets, whether this is done efficiently or not, since politicians tend to interpret unallocated funds as evidence that the funds are not needed.

Contractors and consultants are often brought in to assist the owner in implementation. The relationship between these third-party implementing agencies and the donor/recipient ministries is another principal-agent relationship where the interests of all parties have some overlap but also have considerable divergence. The initiative, design, and oversight of a project or program may rely heavily on a contractor, leading to considerable information asymmetries between donor, contractor, and recipient.

A Tangle of Relationships

Taken together, the relationships within and across countries, agencies, and their citizens can tangle the principal-agent relationships among the IDA, the recipient owner, and the third-party implementer. For example, whereas the IDA pays for the services of a contractor, the nominal principal is the recipient owner. Meanwhile, the consultant, typically, has more information about ground realities than do officials at the IDA or recipient agencies. Such consultants may in effect take on some of the IDA's administrative responsibilities. In this case, the intended owner may look to the consultant as its *de facto* principal.

The result of this tangle of relationships is that many individuals are responsible for ensuring the effectiveness and sustainability of aid, but no one is really held accountable.

The Weakest Link

While some of the linkages described above are strong, others are relatively weak. Unfortunately, the link with beneficiaries is the weakest link of all. While improving beneficiaries' welfare is the ultimate goal of project aid, feedback links from the beneficiaries to an IDA – indeed to most other Octangle actors – are weak to nonexistent. In the case of program aid, those who actually receive benefits are only indirectly linked to the donor and recipient governments. Neither donor nor recipient politicians have much accountability to the beneficiaries. The lack of such linkages with beneficiaries excludes valuable information and skills that can foster successful interven-

tions for collective-action problems. Beneficiary organization is generally lacking in most settings.

Interest groups represent a wide variety of preferences, values, and deserved outcomes. Citizens in recipient countries, through their membership in interest groups, may also participate in the aid process. They may be organized in various specific user groups related to particular resources (e.g., forests, irrigation) or broader public interest groups lobbying government officials for particular development policies. Business interests within the donor country have frequently pressured the donor government to negotiate tied aid, whereby the funds given to the recipient country are used to purchase goods (e.g., tractors, turbines, and other equipment) and/or services (such as training and consulting) from the donor country. Other donors sometimes act as interest groups by advocating certain kinds of aid, e.g., family planning, preserving the environment, etc. Citizens in donor countries, however, rarely hear direct information from the targeted beneficiaries, making information manipulable by politicians and bureaucrats.

Competition among potential donors can exacerbate incentive problems. When the recipient knows that other donors will step in to fund a project even if one threatens to withdraw based on its recipient's poor show of effort, few consequences exist to put in less effort (or conversely few incentives to change strategies). In the Orissa Forestry case study, for example, Sida has threatened not to continue funding for its project, citing repeated lapses in follow-through on its agreements by the project's nominal owner, the Orissa Forest Department. Yet, this does not appear to have affected the strategy of the Forest Department; its officials hinted that aid could be sought from the Japanese.

Chapter 5

Incentives in the Modalities and Characteristics of Development Cooperation

The context within which aid is structured and administered involves a series of interrelated action situations. Understanding incentives within this system of aid requires that we move beyond a focus on a single action situation – that between donor government and recipient government, for example – to consider more complex and configural relationships among a larger set of involved actors. Incentives in the interactions among these actors arise within the context of specific rule combinations that emerge, partly, from the presence of given modalities and characteristics of aid. These modalities and characteristics can thus affect the sustainability and effectiveness of donor assistance in solving beneficiary problems of collective action.

Particular aid *characteristics* (credits, grants, and guarantees) and aid *modalities* (Project Aid, Programme Aid, and Sector Programme Support) are constituted by particular sets of rules. These rules, when taken in the context of existing institutions, produce diverse sets of incentives for those involved with aid.

Aid Characteristics

Grants

Grants are transfers made from the donor to the recipient in cash, goods, or services for which no repayment is required. Grants are attractive to the recipient since they do not have to be repaid; they are attractive to donors since they appear to enhance recipient ownership. Grants can have significant impacts – some perverse – on incentives. Below we consider some scenarios where the incentive effects of grant aid are weakened.

THE PROBLEM OF FUNGIBILITY. In some cases, recipient governments swap all or some portion of their *own* contributions to the project with that derived from donor funding. This causes a problem of fungibility. When aid resources are, in effect, shifted away from their intended target by the recipient, prospective owners face little added motivation to maintain the effort needed for project sustainability.

THE PROBLEM OF REPUTATION. Responsible ownership of grants – that is, one aligned with an interest in the realization of properly funded outcomes – is enhanced if recipient governments need to maintain credibility with their donors/creditors. However, if the donor faces a Samaritan's Dilemma, or if competition exists among donors, recipients have fewer stakes to protect a good reputation.

THE PROBLEM OF ACCOUNTABILITY. Even if officials at the recipient's finance ministry have an interest in maintaining credibility with their donor counterparts, they are often far removed from line ministry officials and other *de facto* owners further down in the chain of project implementation. These local-level officials, not faced with having to maintain an ongoing relationship with the donor, face fewer repercussions for irresponsible uses of grant aid.

Credits

Credits (or loans) are transfers for which repayment is required. There are at least three potential advantages to credit-financed aid over grant aid: First, credits could oblige the recipient country to take greater ownership of projects since accepting credits incurs a debt for the country. Second, the use of market-financed concessionary credits is supposed to lead to larger inflows of capital than grants. Finally, credits are seen as providing a clearer commercial signal to the recipient.

In cases where ownership is separated from the associated responsibility, however, as often is the case in development cooperation, the incentive effect of credits is obscured. In the case of project aid, repayments of credits are usually derived from domestic taxes rather than the earnings of the project itself. As a result, no direct link exists between the project's success and the success of the loan. The ownership/responsibility links are also weak in programme assistance, given that 20-year (or longer) repayment plans do not match well the recipients' shorter (often politically influenced) time horizons. Often, credit incentives are associated with a recipient making unfulfilled promises to donors.

Guarantees

Guarantees facilitate the financing of projects – often relating to infrastructure – that use private sources of capital. Three basic types of guarantees are intended to cover different types of risks: Investment Guarantees cover the *political* risks in share capital. Credit Enhancement Guarantees overcome the *credit* risks developing country borrowers pose. In addition, Performance Guarantees mitigate the *investor* risks from shortcomings that may exist in regulation, legislation, and project execution. Guarantees reduce the risk involved for firms from donor countries to invest in specific projects in the recipient country, but postpone the need for fundamental institutional reform required of the recipient countries to deal with the presence of these risks in the first place. Thus, donors may find themselves underwriting the recipient government's bad policies and creating a moral hazard problem.

Tied Aid

Tied aid also generates incentives inimical to aid effectiveness and sustainability. It can deprive the recipient country of aspects of ownership since it significantly narrows their choices. It can undermine the legitimacy of aid due to the observable channeling of tax dollars to the domestic enterprises of the donor country. Tied aid can also promote inefficiency in that it can reduce competitive pressure in procurement. Thus, it encourages rent seeking by firms and individuals in the business of aid.

Aid Conditionality and Selectivity

Aid conditionality may also influence the incentives that confront actors in the aid system. Many analysts now claim that *ex ante* conditionality (aid contracts with strings attached) has not worked for many of the reasons listed above. The idea that countries that have adopted good policies and that have used past lending well should be rewarded with aid without imposing further policy-related conditions does not, unfortunately, solve all of the incentive issues that plague development cooperation. Several possible factors are at play: First, since aid is often awarded strategically, it may introduce a race to the bottom as donors lower their standards for foreign policy reasons. Second, donor funding under *ex post* regimes can create fewer rewards for special interests in the donor country and for the donor agency personnel. Third, aid staff may lack the discipline to avoid lending to marginally deserving countries, particularly when their own professional advancement is related to the size of their lending portfolio. It may also be the case that foreign aid becomes less publicly defensible to donor country taxpayers when it is disbursed only to countries that have improved their own level of development.

Donor agencies can attempt to make aid more effective either by being more selective of their projects/programmes or by being more selective of their countries. Project selectivity is often vitiated by the problem of fungibility. Overcoming this by introducing *ex ante* conditionality to improve the policy environment for project sustainability, however, creates strategic incentives for the leaders of recipient countries to avoid reform. Alternatively, country selectivity through *ex post* conditionality calls into question the very rationale for aid.

Aid Modalities

Like aid characteristics, the different modalities of aid (Project Aid, Programme Aid, Sector Programme Support, NGO support, Humanitarian Assistance, Technical Cooperation, and Research Cooperation) also influence incentives. Under each modality, different actors, different linkages, and different rules combine to generate various arrays of incentives. We look at some examples below.

Project Aid

Project aid is relatively distinct and limited, with beneficiaries that are generally well defined. The increased specificity of project aid allows a donor government to target more clearly both its domestic and recipient country beneficiaries, which will stimulate both to seek participation.

Programme Aid

Programme aid, in broad comparison, focuses on the recipient country's overall policy objectives and macroeconomic goals. It may be privileged over project aid since it can distribute far greater allocations of an aid agency's budget, especially per staff hour. A recipient might also generally prefer the broad nature of programme aid, to the extent that it provides greater discretion over a large amount of resources.

Sector Programme Support

Sector Programme Support (SPS) attempts to coordinate sector-wide, long-term support. SPS is an example of the Sector Wide Approach (SWAP), which has been adopted by various bilateral and multilateral donor agencies. SWAPs attempt to integrate a sector strategy, a government expenditure program, and a management framework for implementation, with a secure funding basis. Though initiated to overcome many of the ownership problems of traditional aid, SWAPs also confront perverse incentives that arise in the context of coordinating multiple donors, varying levels of aid, and meeting the dictates of donors' disbursement schedules. In fact, the consistent, long-term support by donors can actually exacerbate moral hazard problems and recipients' own institutional development.

Chapter 6

How Does Sida's Internal Organization Influence the Incentives for Stakeholder Performance in Partner Countries?

This chapter focuses on Sida's internal organization and how it tends to affect the sustainability of outcomes of Sweden's development cooperation. Our analysis of the incentives within the Swedish aid process draws from information collected through interviews of randomly selected staff and selected key managers at Sida headquarters in Stockholm in March, June, and November of 2000, as well as a wide review of Sida documents and literature.

Analyzing Incentives in Sida's Organization

Sida staff members face at least two intertwined sets of action situations within Sida: (1) principal-agent relationships within their own organization and with contractors and (2) interactions with recipient organizations to support solutions to the underlying operational problems existing in diverse partners.

Sida's internal organization can be characterized as a series of complex principal-agent relationships between actors that are themselves linked to other actors in the development octangle, such as recipient governments, contractors, organized interest groups, and beneficiaries. As suggested by the IAD framework, the context of these internal relationships at the *constitutional* and *policy* levels affects the prospects for sustainable results of Sida-financed activities at the *operational* level.

The interaction between Sida and the main field actors is hampered by serious information asymmetries. Sida can deal with the information asymmetries by engaging in interactions with actors in partner countries to learn about their actions, strategies, and outcomes. Gaining nuanced knowledge about possible causes of observed outcomes in Sida-sponsored activities is key for achieving sustainability.

Sida's Rules-in-Use

Sida operates within rules-in-use at three conceptually distinct levels. (1) At the constitutional level, the rules-in-use are represented by the fundamental laws and policies of the government. (2) Rules-in-use at the policy-making level regulate the organization of the development cooperation system. The Ministry of Foreign Affairs (MFA) has largely delegated authority for this kind of policymaking to Sida. (3) Rules-in-use at an operational level affects the execution of decisions in particular situations.

The rules influence interactions between the major actors involved in Swedish development cooperation and produce incentives that both help and impede the creation of sustainable outcomes for development aid. The Sida staff's high working morale is a truly important resource in efforts to overcome the perverse incentives that abound in the public administration of international development cooperation, but it is not sufficient to generate sustainable outcomes in partner countries. The empirical analysis suggests that Sida can modify some of its policy-level rules so as to improve its incentive structures for both individual and organizational learning about sustainable outcomes in field settings.

Are Incentives within Sida Appropriate for *Individual Learning* about Sustainability?

If an organization composed of several levels of principal-agent relationships had created incentives for individual learning about sustainability, one would expect to find (1) long-term assignments of staff to overseas positions; (2) careful efforts to ensure that individual staff, who were shifted to other assignments, were able to obtain continuing information about projects with which they had an earlier association; (3) a resistance to hiring temporary staff and a strong effort to retain younger staff; and (4) career advancement criteria based to some extent on past participation in projects that had proven to be sustainable – particularly for managerial staff. The research team's personal interviews with a significant number of randomly selected Sida staff suggest that there are several obstacles for staff to learn about sustainability of Sida-supported activities in partner countries. We find that:

(1) Sida staff typically rotate relatively rapidly among different assignments

Rapid movement from assignment to assignment may promote greater integration among staff and exposure to a variety of experiences. It also fosters the development of generalists rather than professionals with deep knowledge of the particular circumstances and culture of recipients and beneficiaries. Based on our sample, the average length of time in an assignment in the field or at headquarters is only four years. Moreover, 75 percent of Sida staff members feel that the rapid turnover of assignments has had a negative im-

pact on performance. Only 16 percent thought that turnover brought positive results due to the introduction of new skills and insights while 8 percent thought it had no impact.

(2) Sida has few mechanisms to ensure effective post-field knowledge transfers

Staff returning from the field possess valuable insights about the partner country context, actors, and the prospects for sustainability of Sida-supported activities. However, this knowledge is rarely utilized by staff who replace them. Of the interviewed staff who had worked on multiple projects, 47 percent responded that they had *no* contact at all with the projects on which they had worked earlier. Only 33 percent indicated a limited level of contact (around once a year), and 19 percent indicated a fair amount of contact (around one to three discussions per year). A clear majority of Sida staff members responding to Sida's own internal survey² indicated that they do not think the organization incorporates field knowledge or follows up significantly on its activities.

(3) The growing proportion of temporary staff negatively affects learning about sustainability

The proportion of temporary staff to permanent staff has shifted from 11.7 percent in 1995 to 15.1 percent in 1999. During the team's visit to Sida in March of 2000, there was a very large proportion of the desk officer positions in the Regional Departments holding temporary contracts. In the Latin American Department, four out of six desk officers held temporary contracts; in the Africa Department, eight out of twelve desk officers were temporary, and in the Asia Department, one out of six desk officers had a temporary contract. While these individuals may have considerable knowledge and skills, such contracts inhibit staff from engaging in repeated interactions with key actors as a way of absorbing detailed knowledge about the societies in which their projects are to be applied. Such repeated interactions are necessary for constructing sufficient trust that will enable the sharing of essential, but often implicit and hidden, information in the field context.

(4) Sida's career advancement criteria is unrelated to performance of past projects

Success or failure in the initiatives taken in development cooperation has little perceived bearing on the careers of involved Sida staff. Among our interviewees, only 2 percent indicated that promotions are based on the performance of the projects on which individuals have worked in the past. Sixty percent thought that promotions are *not at all related* to the past project perform-

² Sida. 2001. *Sida's Organisationsmätning 2000*. Stockholm: Sida, p. 3.

ance, while 32 percent thought that perhaps some aspects of past project performance were taken into account indirectly.³

Are Incentives within Sida Appropriate for Organizational Learning about Sustainability?

Learning also takes place on the organizational level. Ideally, if an organization had created positive incentives to learn about factors leading to sustainable development assistance, one would expect to find: (1) A formal evaluation process that takes place prior to the completion of a project; (2) The beneficiaries would be involved in the evaluation of projects so that learning would occur for the beneficiaries as well as the donors, recipient organizations, and contractors; (3) Considerable stress would be placed on examining the characteristics and level of ownership and discuss its impact on sustainability; (4) The establishment of arrangements to ensure that evaluations were read, discussed, and affected future planning in all departments; and (5) The staff should feel that formal evaluations were useful and that serious attention was paid to them.

We do not find many of these processes in use in Sida. Instead, few formal evaluations contribute to new knowledge that can benefit the prospects for sustainability because they rarely include significant stakeholders and come too late in the project cycle to affect activity decisions and outcomes. More than four out of five of the Sida staff we interviewed considered evaluations largely ineffective. To them, evaluations are onerous administrative chores and are completed much as a required exercise. Many staff members perceive a lack of agreed-upon criteria within Sida for project success.

In a different, more informal survey, selected representatives from eleven departments within Sida reported a wide array of approaches for addressing sustainability, rather than a systematic and organized approach to the topic. Most said that the issue of sustainability permeates the entire work program and that discussions of the topic are frequent whenever discussing specific project activities or potential Sida-supported activities. Most discussions on sustainability, however, appear to be associated with the screening of projects. Only one department mentioned sustainability being discussed in relationship to evaluations. No department reported on efforts to learn about sustainability from ongoing projects.

³ Several plausible explanations for this were advanced, among them the fact that there are so many factors that go into the success or failure of a particular project that it is difficult to clearly see what difference the involved Sida official made. See our Main Report for a more thorough discussion of this phenomenon.

Incentives Created by Sida's Budget Process

As much of development assistance activities focus on spending money, it is also important to analyze the institutions that surround Sida's budgetary activities. One of the major incentives relates to ensuring that the allocated budget is spent. The incentive to "move the money" tends to become even more important when the size of the staff is small relative to the size of the budget it administers, or if the demands on the staff for many kinds of projects are very high.

All government agencies tend to face considerable pressure to disburse their funds within the budgetary year in which they are appropriated. This tends to lead toward a bias for larger projects that enable staff "to move the money" as rapidly as possible. Sida is not immune from this tendency.

If an organization had created positive incentives to resist this budgetary strategy, one would expect to find that (1) few staff would mention the pressure to disburse as a regular part of their work experience and (2) various informal, as well as formal, strategies would be in place to try to discourage this strong motivation to take over budgetary decisions.

Empirical evidence suggests that Sida desk officers feel strong pressure to disburse allocated budgets efficiently. Two-thirds of the interviewees at Sida indicated that disbursement rates (at Sida headquarters or in the recipient country) were actively monitored by their Heads of Department or Division in the day-to-day business. The pressure is perceived to be the highest at the end of the budget year. Sida's annual disbursement figures confirm this, as in three out of the last four years, the fourth quarter has seen the largest amount of disbursement.

The push to disburse draws from a combination of constraints at the constitutional and policy levels. First, the aid allocation process is supply-driven. Sweden's commitment to increase aid allocations to reach 1 percent of GNP and the growing Swedish economy have increased Sida's total resources. Second, in spite of increases in Sida's overall budget, there has been a relative decline in resources for personnel and administration. Third, while there is pressure from the public and their representatives in the Parliament to spend these resources in a responsible manner, Sida is also under pressure to demonstrate that it is indeed able to use up the allocated funds. We found no examples of Sida having objected to receiving more funds because it compromised prospects for sustainability.

Expenditure ceilings, as have been imposed recently on Sida, favor rigid patterns of disbursement that may not foster sustainability. The effort to realize sustainable development outcomes requires budgetary flexibility. In order to enhance their success and sustainability, aid projects need to fine-tune the decision making to dynamic local processes. This is a successive process that

means that disbursement timetables have to be adaptable. To be effective, Sida must continuously monitor the recipient's actions and accordingly adjust its support. Strict budget ceilings, without the flexibility of reserve funds, foster a resource-focused, rather than content- and quality-driven, management of Sida's initiatives.

Our overall assessment is that many aspects of Sida's organizational structure and personnel policies encourage a learning environment, but we did not find many inducements to engage in individual or organizational-level learning about sustainability as such. We believe that one of the important challenges for Sida is to create the conditions that enable their staff members to maintain close contacts with the actors involved at the operational level and encourage staff to actively seek out essential information from field activities. Given Sida's recognized achievement in creating a working environment in which its staff members are very motivated to contribute to the organization's objectives, we believe that Sida is better equipped than most other donor agencies to take on this challenge.

Chapter 7

Incentives for Contractors in Sida-supported Activities

The International Development Cooperation Octangle reveals the central position of contractors within the system of Swedish bilateral aid (see Figure 4.1). Interactions among Sida, contractors, recipient organizations, and beneficiaries form the crucial action arenas in most development interventions. Sida often relies on consultants to provide expert advice and to design, implement, and evaluate projects. Consultants often monitor and follow up on field activities as well. In many cases, contractors – rather than Sida staff – have the closest and most regular contact with aid recipients, which has important implications for aid sustainability.

Contracts to Swedish Contractors

Swedish firms are disproportionately represented among winners of Sida contracts, including contracts that are openly bid. (In this respect, it is similar to most, if not all, DAC members.) When procuring contractors, Sida staff face the following incentives to favor Swedish consultants: (1) the quality of the Swedish human resource base for international development cooperation is world-class; (2) Swedish consultants often have experience in working with Sida and are more knowledgeable about the way Sida operates; and (3) working with Swedish firms means lowering the transaction costs for busy Sida staff in negotiating contracts and in ongoing monitoring.

Sida's Legal Department notes that the international bidding processes for Sida contracts are increasingly competitive and that the share of contracts awarded to international firms are on a steady increase. Even so, Swedish firms continue to land the vast majority of the more lucrative of consultant contracts.

Factors Affecting Contractor Performance

Contractors are Often Involved in Project Development

Sida staff and consultants note that consultants are frequently involved in the project development process, often even before an initial inquiry is made from the recipient. Indeed, consultants often have strong incentives to “help” the recipient formulate a project inquiry. Not surprisingly, these initial inquir-

ies usually involve problem areas where the consultant has special expertise, relationships with Sida, and/or information.

Contracts for Project Design and Implementation Services Sometimes Go to the Same Firm

Interviews with consultants and reviews of project tender documents indicate that it is not uncommon for project design consultants and project implementation consultants to be from the same firm. Such double participation would allow a firm to design projects that cater to their skills and insider knowledge of actors, putting other firms at a disadvantage in the bidding process. To the extent, however, that Sida preferentially awards contracts for both project design and project implementation to Swedish firms, the likelihood of a project design winning a project implementation contract is relatively high, especially since the size of the pool of qualified Swedish consultants is limited.

Double contracting has the potential to favor consultants' interests over the needs of recipients and beneficiaries, and in this way undermines a recipient's sense of ownership. Sida policies, thus, attempt to discourage the same consultants from both designing and implementing a project.

While additional information is needed on the prevalence of “double contracting,” the Swedish consultants we interviewed noted that this phenomenon is most common when a particular project depends on “highly specialized skills.” This suggests that double contracting may be a result of limited competition in the market for consultant's services.

Contractors View the Sida Desk Officer, Rather Than the Recipient, as the *De Facto* Project Owner

Sida policy urges that recipient organizations take ownership of projects. Where this policy is applied, recipient owners would make key project decisions and serve as principal to the contractors. Instead, we found that consultants and recipients often perceive Sida desk officers as the *de facto* principal.

Consultants often face incentives to maximize their efforts on tasks they think will please Sida. Given that consulting firms tend to seek long-term relationships with Sida, they strive hard to maintain their reputation and relationship with Sida.

Contractors are Often Motivated by Multiple Goals

Some of the consultants we interviewed indicated that one of their primary goals was to secure well-paying work for their firm. They assume that by performing well on current Sida tasks, additional – and perhaps larger and more

lucrative – Sida contracts might be obtained in the future. In this regard, however, consultants also indicated that profit-orientation of their business is only one motivator for doing good work, and is not even necessarily the most important one. This is a salient finding for Sida as it encourages contractors to perform well as Sida searches for low-cost alternatives to motivate them. Interviewees stress the importance of being able to develop meaningful, productive partnerships with counterparts overseas. Consultants also express a desire to receive public praise for their work – a source of pride and also a means for advertising their skills and experience.

Contractors' Incentives, Ownership, and Sustainability

In sum, contractor's incentives to perform depend on (1) the importance of the donor to the portfolio of the contractor, (2) the nature of the good being contracted (which determines the profit margins), and (3) the extent to which the aid is tied and the extent of competition in the donor country.

While Sida retains a great deal of effective aid ownership by making the crucial decisions, including those related to the amount of funding and the start and termination of projects, consultants can also have strong incentives to exercise ownership over a project. Contractor ownership is enhanced where particular asymmetries of information and/or power exist.

A consultant concerned with possible future contracts with Sida is likely to maximize his or her control over a project, and not pass along control to the intended beneficiaries. Passing along such ownership to the beneficiaries is risky. Beneficiaries do not have the same incentives as contractors. Thus, beneficiaries may not act in the ways that Sida wants. It is rational for contractors to reduce this uncertainty by retaining control.

As consultants frequently have greater knowledge of what has worked or not worked in the past, it is important to design ways of drawing more effectively on that knowledge while encouraging more recipient ownership. In particular, assigning a greater role to beneficiary organizations (e.g., local user groups) in the hiring, monitoring, and releasing of consultants may be an important step toward combining the local knowledge of beneficiaries with the technical expertise possessed by consultants.

Chapter 8

Sida in India

Two case studies from India – “Capacity Building for Participatory Management of Degraded Forests in Orissa” and “The Chandrapur-Padghe HVDC Converter Terminal Project” – demonstrate the use of institutional analysis as a diagnostic tool and illustrate problems of motivation and asymmetric information. These cases also reveal two larger issues central to aid: (1) the nature of the underlying collective-action problem that gives rise to the existing incentive problem and (2) the dispersion of project ownership among the actors involved in development cooperation, which generates a lack of accountability.

Sweden’s Development Cooperation with India

India is a “strong” recipient whose federal structure affects the content, type, and implementation of aid. The Indian Ministry of Finance transforms all concessional loans and grants into a standard 70 percent credit/30 percent grant facility as it gives the aid to the states. This conversion weakens donors’ ability to leverage its aid for reform at the state or local level.

The Orissa Forestry Project

In the Orissa Forestry “Capacity Building” Project, Sida seeks to build capacity within the Orissa Forest Department to transfer greater responsibility for the management of the state’s forests from the department to the forest communities themselves.

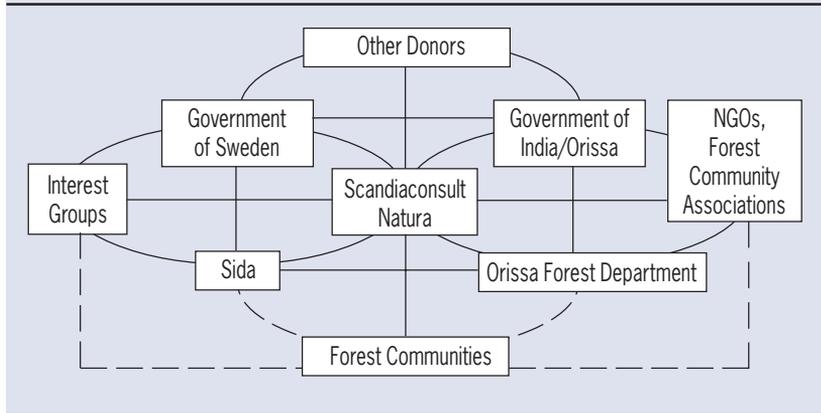
Based on the relative failure of a previous forestry project in Orissa, Sida’s desk officers did not have strong confidence in the Orissa Forest Department when designing the Capacity Building Project. Implicitly recognizing their Samaritan’s Dilemma, Sida officials decided to proceed cautiously in the Capacity Building Project by designing it in two phases, with the second phase contingent on the Forest Department’s meeting its first-phase commitments.

Actors

The main actors in the Orissa Forestry Project include the communities, the state government and its public corporations, the Forest Department, Sida, consultants, and local NGOs. These actors are placed in context to each other.

er within the Octangle diagram below (see Figure 8.1). The rural population of Orissa relies heavily on the forest for fuelwood and other nontraditional forest products (NTFPs). Many of the rural poor are denied access to the forests since the state has monopoly rights over the sale of any forest products. The state, in turn, seeks to maximize its royalties by arranging contracts with timber companies, the paper industry, and other middlemen and end users.

Figure 8.1: Octangle Diagram of the Capacity Building Project



Rules-in-Use

Orissa, like other states in India, possesses a parliamentary model of government. There also exists a well-entrenched system of patronage and tribute whereby particular political and bureaucratic officeholders provide rewards and protection to those clients who subscribe to them. Patron-client relationships are maintained through the particular monopoly power exerted by stewardship of the concerned portfolio (such as for forests). The Orissa Forest Department is very hierarchical, and in many ways continues to regard the forests as its own property. Some of its officers value the forests placed in their custody primarily for their commercial value, and see their role as protecting and managing the forests for this purpose.

Scandiaconsult Natura, a for-profit consultant, faces the incentives of keeping Sida happy while not offending the Orissa Forest Department, upon whose cooperation they depend to show success. While possessing important technical skills and displaying considerable commitment, Scandiaconsult Natura has few stakes in the well-being of the forest village communities. Informational asymmetries, made possible by Scandiaconsult Natura's close knowledge of the situation in Orissa, make this consultant relatively indispensable to Sida. In addition, effective supervision by Sida is often absent because Sida does not have the staffing resources.

Incentives

Sida has been involved with the Orissa Forestry Project for several reasons: the effort fits with Swedish domestic policy priorities (environment) and expertise (silviculture), and is of the “right” size (large enough to consume funds but not overtax Sida’s administrative resources). Sida’s Orissa Forestry Project is somewhat unique in having benefited from the continuous involvement of staff over a long time. This has made available a deployment of knowledge of the realities of Orissa forestry. Learning at the level of individual staff, however, has not always translated into learning and prompt action at an organizational level.

The two-phased structure of the Capacity Building Project is an attempt to create incentives to improve project sustainability. They are geared to encourage the Forest Department to adopt community forest management. The Forest Department, however, is reluctant to give up their control of the forests by recognizing local users’ rights. Although the Orissa state legislature has recently passed laws recognizing forest users’ rights in response to well-organized grass-roots movements, the prevailing incentive structure, where forest revenues are an important source of rents, remains intact. Given this, the apparent strategy of Forest Department officials is to stonewall reform.

Prospects for Sustainability

The immediate effect of Sida project funding has been to increase the budget and staff of the Social Forestry Division within the Orissa Forest Department. There is considerable prestige in being associated with a donor-funded project. The increase in staff and budget for the Social Forestry Department increases its director’s standing and puts him in serious contention for promotion to higher grades.

THE OWNERSHIP PUZZLE. Local forest communities, whose members’ participation is vital to the sustainable management of forests, have had little meaningful input to the design or promulgation of Sida’s community forestry projects in Orissa.

Sida vests formal project ownership with the Orissa Forest Department. This designation of ownership, however, is rarely translated into responsibility on the part of particular staff members. On the other hand, Sida provides the funds and sets many of the conditions of the project. Further, consultants often exercise day-to-day ownership responsibilities, but they have no stake in the communities themselves. Meanwhile, the communities – those who have the greatest stake in responsible management of their forest resources – are accorded few, if any, of the privileges of ownership.

THE SUSTAINABILITY OUTLOOK. The prospects for optimism about the sustainability of this project, in terms of the lingering effects of the project, are low. On one hand, it is premature to judge the sustainability of a project left incomplete by Sweden’s aid suspension. On the other hand, the incentives of

actors in this case provide reason for pessimism. Given the state’s control of the forest and the culture of corruption within the Forest Department, there are incentives to receive aid but to delay reform. Unless a significant degree of ownership passes on to beneficiary groups of forest users, the incentives underlying the prevailing collective-action problem will remain unchanged.

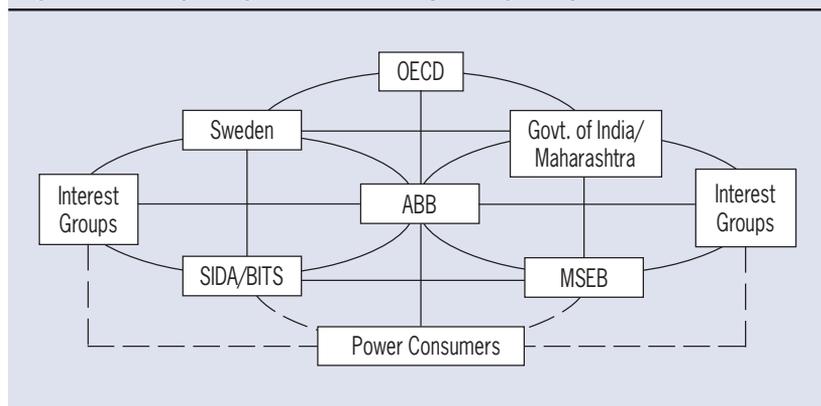
The Maharashtra Power Project

In the Maharashtra Power Project, tied aid from Sweden financed the purchase and installation of converter terminals and services for a High Voltage Direct Current (HVDC) transmission line. The transmission line stretches from Chandrapur to Padghe in the Maharashtra. The equipment for these terminals was procured from ABB, a Swedish multinational corporation, and from BHEL, ABB’s Indian partner. Sweden’s assistance to develop capacity for power transmission in Maharashtra forms one component of the more comprehensive Second Maharashtra Power Project (SMPP), funded in part by the World Bank, Sida, and the governments of India and Maharashtra.

Actors

The SMPP is a complex project with multiple actors, including various personnel in departments within Sida, the World Bank, various ministries and agencies within the Governments of India and Maharashtra, contractors, as well as power consumers in Maharashtra (see Figure 8.2). We focus on two primary action arenas – one on the recipient side and the other on the donor’s side. The arena on the recipient side structures situations within a triad formed by the Government of Maharashtra, the Maharashtra State Electricity Board (MSEB), and special interest groups that receive subsidized power. On the donor’s side, the structured triad is among the Government of Sweden, Sida, and lobby groups within Sweden that benefit from tied-aid contracts.

Figure 8.2: Octangle Diagram of the Chandrapur-Padghe Project



Rules-in-Use

The development of the power sector as well as power production, transmission, and distribution of electricity has been viewed traditionally as a state responsibility in India, with this responsibility divided between the central and state governments. State governments control their respective State Electricity Boards (SEB), and State Generation Companies generate about three-quarters of the electricity that finally reaches consumers.

Incentives

Incentives arising from both the donor and the recipient sides of the development cooperation relationship are significant in this case. In Sweden, Sida's financing of the HVDC project resulted from the agency's desire to help the Indians in poverty, and partly from the incentives faced by the Swedish Ministry of Foreign Affairs and Members of Parliament to promote the Swedish private sector. (ABB's award of contract for the HVDC terminals both furthered Sweden's commercial interests and preserved employment for 2,500 workers.) ABB has clear incentives to seek profits in markets where risks might otherwise preclude participation.

On the Indian side, state control of the MSEB has long enabled politicians in Maharashtra to hand out electricity as patronage and to award jobs at the MSEB to supporters – the prospects of which are enhanced when a donor expands local capacity – and to take direct cuts from the construction of infrastructure projects – such as those made possible by aid projects.

Prospects for Sustainability

THE OWNERSHIP PUZZLE. The MSEB, Sida's nominal owner of the Chandrapur-Padghe Converter Terminal Project, is financially and politically weak. As long as the MSEB is not solvent, private investment to fix undercapacity will not be forthcoming. The MSEB is not able to assert ownership as a regulated utility due to gross interference from the state government, the *de facto* owner. Responsible ownership – whether by a regulated MSEB or an alternative competitive arrangement – is vital for sustainable private investment in India's power sector. Such ownership is meaningful only when placed in the context of the institutional resolution of the underlying collective-action problem.

IMPLICATIONS FOR SUSTAINABILITY. Our case study in Maharashtra reveals a rampant free-rider problem. Illegal tapping of electricity and nonpayment of fees both undermine its revenue base. Donor funding of capital assets for the MSEB increases the capacity of the utility to access and distribute power, but does not resolve the lack of sufficient revenue to cover basic operation and maintenance expenditures, let alone necessary investment expenditures. While donor investments in expanding the availability of power through the SMPP has helped, in the short run, it has also potentially created a bigger

pool of patronage. Donor financing in this case may have unwittingly strengthened ownership by the state government; deterred the private investment needed for sustained, long-term development; and lengthened the time until power utilities are funded primarily by end users.

Chapter 9

Sida in Zambia

This brief chapter summarizes an institutional analysis of three Sida-supported organizations: The Energy Regulation Board, Kafue Gorge Hydro-power Station, and The Conservation Farming Unit based on a short visit to Zambia in November of 2000 and reading of background materials. A summary of the main findings follows.

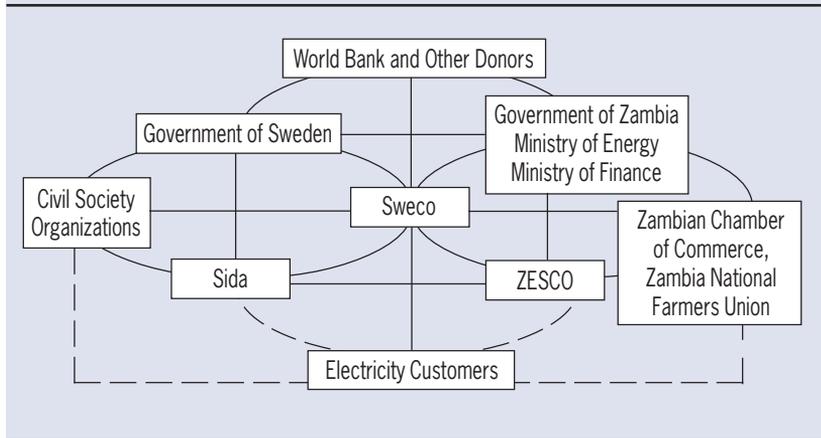
Energy Regulation Board (ERB)

The energy supply sector is critical for the Zambian economy. It affects all productive sectors, and the Government of Zambia (GRZ) sees energy resources as a future cash earner. In order to develop this vital sector, GRZ has embarked on a market-friendly liberalization program. In 1994, GRZ policy set out to deregulate electricity and reform ZESCO, Zambia's energy parastatal. The deregulation policy was facilitated by the Energy Regulation Act of 1995, which provided for an Energy Regulation Board (ERB). Specifically, the ERB was charged with regulating the supply of petroleum, electricity, and other forms of energy (independent of political influence); with monitoring the efficiency, performance, and level of competition among the sector operators; with investigating consumer complaints; and with setting design standards for the industry. Swedish support consists of financing the services of Sweco, a Swedish consulting firm with expertise in electricity regulation, to support the ERB.

Actors

The major actors in this action situation are the Zambian government (Ministry of Energy and Ministry of Finance), ZESCO, the World Bank (IDA), and the public who are the beneficiaries. Other actors include Sweco, the consultant paid by Sida to help the ERB, and several interest groups including the Zambian Chamber of Commerce and the Zambia National Farmers Union (ZNFU) (see Figure 9.1). Until the advent of the ERB, ZESCO had been the sole organization with the authority to generate and distribute electricity in Zambia. There is great reluctance among many, if not most, bureaucrats to move towards any other system (like privatization). As a relatively new actor, ERB poses a threat to the "old system" and its representatives.

Figure 9.1: The Octangle of Actors for the Case of the Zambian Energy Regulation Board



Rules-in-Use

The set of rules-in-use affecting the behavior of actors in this action arena reflects both new and old institutions. Formally, the ERB is responsible for issuing licenses to any energy production or distributing entity in Zambia and for approving prices for energy. The ERB's revenue consists of the license fees it collects from these entities. Previously, the government, through ZESCO, had set prices. Now, as per the 1997 Energy Act, the ERB is to control the process of pricing. Because the Minister of Energy chooses the members of the ERB's Board, questions remain about the ERB's independence.

Incentives

Strong incentives motivated the GRZ to create the ERB, despite the apparent loss of political clout over the electricity sector that might be expected from such a move: The ERB met the World Bank demand for institutional change (allowing Bank funds to flow) and provided the government with a buffer from the public criticism generated by rate hikes and other privatization actions.

Members of the ERB have strong incentives to secure aid from donors like Sida. As a new agency, the ERB lacked training, support staff, and basic office supplies. Donor support helps them to travel and to enhance their personal qualifications – and thus to gain a competitive edge on the job market. Sweco has also been important in training ERB staff and Board members in performing stakeholder analysis and participatory planning. The public and special interest groups also have incentives to support an independent regulator to monitor political meddling and corruption in the energy sector.

Clear and strong incentives existed for Sida to support the ERB. The World Bank sought donor help to support the ERB. Much of the monitoring of the PRP is to be done by the World Bank, not Sida. This type of institutional

help fits one of the new directions that Sida has taken in the reform of public enterprises. Sida also has a history of energy sector involvement in Zambia and had experience with Swedish consultants in this area.

Prospects for Sustainability

THE OWNERSHIP PUZZLE. There are strong reasons to be skeptical about the long-run effectiveness of the ERB. ZESCO remains the dominant player in the electricity sector. The Ministry of Energy appoints the ERB's members. GRZ sees the exportation of its power as a future "cash cow."

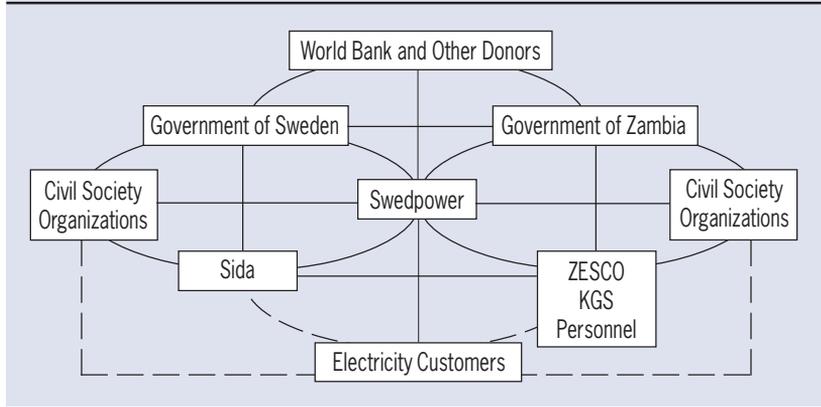
THE SUSTAINABILITY OUTLOOK. The ERB might be sustainable while being "owned" by Zambia, but it is unlikely that this type of survival would include its effectiveness as an independent regulator in the energy sector. Even with donor support, sustaining the existence and independence of the ERB will likely take a long time in a political atmosphere that generally seeks to prevent agency independence. Sida's support for the ERB has been important. Sida's consultant, Sweco, has given the Board the crucial technical support at the beginning of the new agency. Further, there is evidence that Sida staff took a strong position to support the ERB mandate in discussions with Zambian government representatives.

As important as this type of support to institution-building projects is, small-scale technical assistance projects might be threatened with the increase in budget scheduled for Sida in Africa. Institution-building projects tend to be labor-intensive and not very expensive efforts – Sida's total commitment to the ERB is only SEK 7 million over four years and thus does not consume substantial resources.

Kafue Gorge Hydropower Station (KGS)

The World Bank's Power Rehabilitation Program (PRP) for Zambia also calls for the Kafue Gorge Hydropower Station (KGS), which produces the bulk of Zambia's electricity. A Sida-financed technical audit carried out by Swedpower in 1996 concluded such an effort required civil and electromechanical rehabilitation works. With funds from Sida, Swedpower is now working for ZESCO to advise and train ZESCO personnel in the management of the rehabilitation project (see Figure 9.2).

Figure 9.2: The Octangle of Actors for the Kafue Gorge Hydropower Station Rehabilitation Project



Actors

The main actors in this project are the World Bank, the government of Zambia, ZESCO, Sida, and Swedpower, the consultant who is helping ZESCO to manage the project. The nature of the goods directly involved in this aid are the standard, private goods common in much development cooperation: hardware and the technical assistance of consultants; the underlying good is electricity. This study considers the action situation to comprise the period of Sida’s support to the Kafue Gorge Hydropower Station Rehabilitation Project and the actors at the collective-choice level.

Rules-in-Use

ZESCO dominates the production and distribution of electricity in Zambia, and KGS is the backbone of their electricity production. The World Bank’s PRP appears to have empowered the bargaining strength of ZESCO vis-à-vis the consultants. First, the World Bank insisted from the beginning that ZESCO manage the PRP. Second, the money from the World Bank allows ZESCO not to be dependent on any one consultant or bilateral donor. Third, since the Sida aid was not a grant to the government but a loan (though at no interest) to ZESCO, the agency is more motivated to see that it gets its money’s worth. Finally, ZESCO retains the power of procurement in the project.

Incentives

Both Sida and actors within Zambia appear to be guided by the benefits of Sida’s participation in the KGS. Sida officials view it as a standard, “old-style” development cooperation project with short- to medium-term goals that most officials interviewed think will be met. Sida also has a history with the KGS and the Swedish consultants. GRZ expects to receive support for

the rehabilitation of their most important electricity producer. ZESCO also faces generally positive incentives with the rehabilitation of the KGS. While receiving much-needed funds to repair various works, it has successfully avoided much institutional restructuring. Unlike previous rehabilitation projects, however, ZESCO officials report that since the government has lent – not granted – ZESCO the money from Sida, they have stronger incentives to keep track of Sida and other World Bank/PRP money.

Prospects for Sustainability

THE OWNERSHIP PUZZLE. The World Bank's Power Rehabilitation Project (PRP) has increased the level of ownership for the Zambian ZESCO personnel: they feel empowered by being directly involved in the tendering process. Thus, in the context of Sida's aid, ZESCO felt more control over the process. If this empowerment may endure, and carry over to the actual implementation of activities, then one could perhaps say that this aid had an effect on sustainability. The GRZ's continuous need for outside assistance undercuts these effects, however. GRZ remains completely dependent on outside funds for the continued operation of the KGS, and Sida's help – both in this instance and over the years – has not generated a way out of this dependence.

THE SUSTAINABILITY OUTLOOK. The help provided by Sida for the rehabilitation of the KGS is an example of classical development assistance. Technical assistance, financed by Sida and provided by a Swedish firm, is needed in the recipient country. The effects of such training are often long-term in realization, and there likely will be some enduring effects from this Sida-funded transfer of knowledge (although measuring these effects is always difficult). Without new and effective institutions, however, ZESCO faces the same sets of incentives as it always has – that is, to attract donors to pitch in when possible. Sida has played the part of the Samaritan at the KGS, and the GRZ remains completely dependent on outside funds for the continued operation of its hydropower stations.

The Conservation Farming Unit (CFU)

The principal objective of the CFU is to promote smallholder adoption of conservation farming technology. This is achieved mainly through the training of trainers who work within the existing sector organizations, such as nongovernmental organizations, commercial firms, and the Ministry of Agriculture, Food, and Fisheries (MAFF). Sida, along with other international development agencies in Zambia, has provided \$600,000 to the activities of the CFU since 1996. The financial support is handled directly by the CFU project managers.

In contrast to most aid-supported projects in the agricultural sector, the CFU is not part of the support channeled through MAFF. Rather, it is considered a private sector initiative, officially housed as a sub-unit of the Zambian Na-

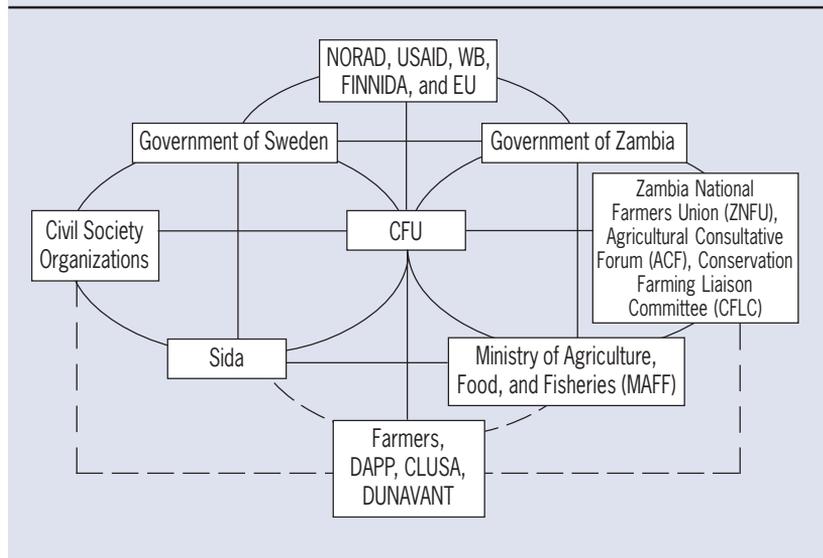
tional Farmers Union (ZNFU). Nevertheless, MAFF recently adopted conservation farming as one of its main priorities for its extension program. In turn, this means that MAFF plays an increasingly important role in the promotion and future success of conservation farming in Zambia.

Actors

The main actors in the current phase of the CFU project are: CFU staff, donors, clients (Development Aid from People to People, DAPP, Co-operative League of the USA, CLUSA, Dunavant and MAFF), individual farmers and organizations participating in the project’s coordinating body – the Conservation Farming Liaison Committee (CFLC) (see Figure 9.3).

The shortages of qualified personnel at MAFF led donors such as the World Bank, Sida, and NORAD to seek alternative ways of supporting activities within the Agricultural Sector Investment Program (ASIP). They hoped, in this way, to bypass effectively the administrative bottleneck of MAFF and to deal directly with the operational entities of the projects. The World Bank now directs most of its activity support to the district levels. Meanwhile, bilateral donors such as Sida and NORAD provide an increasing part of their support to agriculture through private sector initiatives such as the CFU and the Economic Expansion to Outlying Areas Project. The CFU sought an alternative strategy through which it could operate independently from MAFF while, at the same time, collaborate with MAFF in the implementation of activities.

Figure 9.3: The International Development Cooperation Octangle for the Case of the Conservation Farming Unit



Rules-in-Use

Policy decisions (at the collective-choice level) involve the planning of CFU activities financed by Sida and other donors. Sida and CFU project managers are the most important actors at this level as Sida's support goes directly from the Embassy to the CFU. Two other actors play influential roles in the decision making: these are the MAFF and the Sida consultant hired to monitor the progress of the project.

The CFU project represents a sharp contrast to the traditional government-to-government support. The project's relative decision-making autonomy from MAFF and other government agencies is one of the project's fundamental institutional features. This rule of administrative independence makes it possible for the CFU to adopt a flexible and experimental approach that evolves with the challenges that the project faces.

Incentives

CFU managers have a professional stake in the success of their efforts. The managers have been careful to expand slowly, to be highly adaptive, and to work with other organizations on the ground. Further, knowing that farmers may discount the advice given to them by a temporary consultant, the CFU has worked with extant NGOs so as to gain the trust of its target population quickly.

Sida program officers were challenged to propose that the organization support a new, different, and innovative approach – particularly given the history of meager results of support to the agricultural sector in Zambia. The relative low cost of the CFU project support reduced Sida's risk. The nontraditional nature of the project also offers Sida officers personal incentives to follow and support it with extra care. However, the small size of the project (SEK4.2 million) generates incentives for Sida – from an organizational viewpoint – to discontinue support or flood the project prematurely with additional monies. Such incentives may have grown more acute, particularly in light of the recent increase in Sida project allocations for Africa on one hand, and the scarce staffing of field missions on the other.

Prospects for Sustainability

The CFU has enjoyed positive reviews and has been endorsed by the Minister of MAFF. The project's technology component has impacted positively on the lives of thousands of farmers and is expected to reach thousands more in each year of its existence. As impressive as the empirical results of conservation farming technology seem, they are not sufficient to increase the welfare of Zambian farmers. The knowledge of how to maximize yield is certainly an extremely valuable asset to any farmer, but the farmer is not likely to reach his or her welfare potential until he or she acquires the knowledge of managing the entire farming system. This includes knowledge related to

choosing the right crops, harvesting and selling at the right time, and to the right price and buyer. The capacity of the conservation farmer to access and gain these management skills will ultimately determine how far the CFU will go towards contributing to the overall project objective of poverty reduction in Zambia.

THE OWNERSHIP PUZZLE. Donors are part owners of the CFU. The CFU managers also exercise a great deal of the project's ownership: they have designed and implemented the program and have personal stakes in its outcomes. If local farmers do not want to participate, the CFU can move on to another set of farmers who might. The targeted populations thus have the power to exit, but little direct power over project design and management.

THE SUSTAINABILITY OUTLOOK. The CFU is not self-sustaining and most likely will never be – while it does garner revenue by working with NGOs, it remains a project based on technical assistance (we found no plans to have the farmers themselves pay for these extension services). Neither is it likely that the government's own agents in MAFF could be as efficient as those of the CFU's, although it may well have a longer shelf life if MAFF picks up the project. The impacts of the CFU, on the other hand, could be quite sustainable if farmers see their incomes rise over time, although this depends upon more than CFU technology alone.

The CFU is an example of an unconventional, low-cost project led by highly motivated individuals whose preferences are very closely aligned with Sida's, and whose work can be rejected by beneficiaries. The accountability links between beneficiaries, recipient organization, implementing project managers, and Sida officers combine to form incentive structures for these actors that seem compatible with the long-term goals of the project. These factors help the CFU to achieve the success it has so far enjoyed.

Chapter 10

Lessons and Recommendations

This study has examined how incentives structured in the system of development assistance affect sustainable outcomes. We began by exploring how the institutions of aid shape the choices of individuals. We then demonstrated that a number of institutions – some inherent in development assistance and some specific to the structure of Sida – foster incentives that undermine Sida’s goal of sustainable development. In this chapter, we explore some options that may help Sida mitigate some of the perverse incentives found in the system of aid.

Awareness of the Role of Incentives

Most individuals with experience in development cooperation realize that incentives underpin aid effectiveness and sustainability. Yet, while we may be sensitized to the importance of institutions and the incentives they produce, the knowledge underlying this realization is often tacit and, moreover, is rarely transmitted in a systematic way. A more explicit and systematic understanding of institutions and the incentives that emerge within particular organizational structures, as well as mechanisms for transmitting this knowledge, are therefore crucial to improve Sida’s mission effectiveness.

We suggest formalizing an understanding of incentives in the system of aid through Sida’s training modules. Such training should draw on the experiences of more experienced Sida staff members. It should explicitly confront how the institutions of development assistance affect incentives, and hence the sustainability of aid. Such initiatives will foster a keener awareness of project and program design and implementation, yielding higher chances of success.

Yet another two-hour training course for Sida staff on yet another topic – in this case, incentives – is not sufficient to overcoming perverse incentives. In fact, we doubt that any development cooperation agency can fully mitigate the structures that produce unwanted sets of incentives. Powerful incentives are built into structures over which a development agency has little control: the structure of political institutions in both donor and recipient countries beget rules that can work directly against effective development aid. We have discussed numerous examples: the current ratio of staff per development aid budget is just one of numerous rules that at best constrain the effective design

and delivery of development assistance, at worst they undermine completely the possibility of success; the structure of budgeting also creates the powerful incentive to “move the money” that haunts all bureaucracies.

There are also powerful incentives for Sida to do nothing. Many, if not all, of the issues highlighted in this report have been mentioned by others in previous Sida reports and evaluations (although we believe we are the first group to examine fully their theoretical foundations and likely outcomes). Development assistance will continue despite its problems because its funding does not depend on its sustainability. There are no institutions or market mechanisms that ensure the efficient delivery of sustainable aid. The only way that an understanding of incentives will lead to better development assistance is through the determination of an agency’s own staff to create rules that promote “good” incentives. Such rules may be costly in terms of an agency’s own time and money, and may not necessarily lead to greater resources from their government. We would argue, however, that this investment to create better incentive structures will lead to more sustainable outcomes for development assistance.

Ownership and Sustainability

This study has revealed that despite Sida’s stated desire of devolving ownership to aid recipients or beneficiaries, Sida’s institutions generally fail to do so in practice. If devolving ownership is to move beyond rhetoric, it must be systematically approached and implemented, with a sharp eye on the role of institutions.

This is a challenging task, given that Sida finances projects and programs and thus always remains, in some important respects, a *de facto* owner. Sida may find itself in a Samaritan’s Dilemma. Further, Sida must operate within the political logics of its own and a recipient country, which may not be amenable to the aim of promoting sustainable development. Even so, steps can still be taken to improve a sense of ownership among recipients and beneficiaries.

As a first step, all Sida projects must identify who, in fact, exercises ownership prerogatives, and determine how sustainability can be realized in this context. Project planning documents should clearly identify the intended owners and include an analysis of the anticipated impact that this designation of ownership will have on sustainability. Such documents should also detail how meaningful ownership will be vested and what evidence will be gathered to ascertain success in these goals. This recommendation should not be viewed as an easy palliative; rather, it is a very formidable task. The findings from our team suggest that development agencies have little time for developing, requiring, collecting, and evaluating such evidence. In designing its projects/programs, Sida officers must also keep in mind that the greater the number of owners, the smaller the stakes will likely be for any particular owner to ensure success.

In the crucial next step, Sida needs to allow sufficient opportunities for the owner(s) to contribute to the design, implementation, and mid-course corrections of the project/program. A final step is to allow the owner full participation in the final evaluation of a project/program. We set out four criteria for beneficiary ownership. Beneficiary owners need to (1) enunciate a *demand* for aid, (2) allocate at least some of their own *assets* to the project or program so that they have a real stake in the way their own and other actors' assets are used, (3) obtain benefits, and (4) have clear-cut responsibilities and be able to participate in decisions regarding continuance or noncontinuance of a project. Constructing programs that meet these criteria will be another formidable task.

Genuine devolution of ownership may mean less control for Sida and its agent/contractor. While less control is not without its attendant risks, we argue that it is necessary to achieve more sustainable results.

Less control, however, does not mean less Sida involvement in ongoing activities in partner countries. In fact, we find that Sida staff can play a crucial facilitative role to ensure that ownership of activities is anchored primarily with beneficiaries, and not taken over by consultants or individuals within recipient organizations. The incentive structures that emerge in each Sida-supported undertaking are greatly influenced by Sida's interventions, or lack thereof. In general, we think Sida staff in the field are overstretched in their work to gather and evaluate information about their projects and programs. Devolving ownership may involve greater costs of monitoring.

Information and Learning within Sida

Sida, both as an organization and as a collection of talented individuals, can boast of a deep reservoir of knowledge and expertise in development cooperation. Even so, Sida's institutions have not employed this knowledge to its best effect. Given the high rate of turnover of staff dealing with any one project or program, and the lack of a link between career advancement and participation in sustainable projects, few incentives – besides personal motivation – exist for individuals within Sida to be involved with a project after reassignment.

This detracts from Sida's potential for organizational learning and ability to create better projects/programs. At a minimum, staff who have been reassigned should be included in mid-term evaluations of a project so as to offer their knowledge of original conditions and design. A more challenging, though ultimately fruitful, approach would be to reward staff, especially at the manager level, for more sustainable projects.

Like most of the recommendations of this report, there are incentives for Sida to do nothing about information and learning. Tying individuals to the design and implementation of programs and projects in addition to their basic administrative duties is a sensitive and difficult endeavor. Most staff would want to avoid the risk that this might pose to their professional position.

Information and Learning within Development Cooperation

Perverse incentives thrive in the absence of information. As we have already stressed above, their identification and correction require thoughtful analysis before, during, and after a project/program. Midterm formal evaluations are particularly critical to improving sustainability. Such evaluations would allow project participants to learn more effectively about their own activities and, if needed, adjust strategies mid-project in order to enhance sustainability – or even to disinvest in projects that are not expected to be sustainable.

All those affected by projects – particularly the beneficiaries – should be involved in the evaluation of projects. This will encourage beneficiaries, donor officials, and contractors to learn of each other's concerns and from each other's experiences. In cases where beneficiaries are numerous, random samples can be done with a survey tool. For some projects, focus groups may be more appropriate. Projects across Sida should also be randomly selected to study thematic issues raised in these evaluations. To increase learning within Sida, staff with past involvement with the project/program should be invited to project evaluation discussions.

Evaluators should be instructed to examine the level of ownership in a project or program, and the impact of ownership on sustainability should be seriously discussed. Evaluations should be read and discussed formally both with recipient country officials, with beneficiaries where possible, and at Sida. They can then be used as guides to future projects. Staff no longer working on a particular project should be encouraged to participate in the discussion of these evaluations. To support this practice, evaluations should be reviewed in conjunction with staff performance reviews.

The Sida desk officer and the intended beneficiary are separated by many intermediary actors,⁴ each one with an incentive to select and transmit only the information that is likely to benefit him or her privately. The information asymmetries in this multilayered arena make it very difficult for the Sida desk officer to appreciate the reality on the ground.

Sida has taken important steps to address the information asymmetry problem. We were particularly pleased to learn about the encouraging results of Sida's pilot efforts to decentralize a wide range of management responsibilities to selected embassies.⁵ The experiment may serve to reduce the number of intermediary layers in Sweden's development cooperation program. While such structural modifications might improve the possibilities for deci-

⁴ Desk officers rely primarily on the input of embassy colleagues, consultants, and national government officials. These intermediary actors, however, seldom have direct contact with the ultimate beneficiaries of the development cooperation and also have to rely on secondary sources for beneficiary-level information.

⁵ Dar es Salaam, Hanoi, and Managua.

sion makers to acquire essential beneficiary-level information, it will hardly be sufficient to generate stronger incentives for Sida officers to actively seek out information about sustainability issues in ongoing field activities. As suggested by the evidence in Chapter 6, Sida can improve the conditions for learning about sustainability by addressing current constraints in both organizational and individual learning.

Development of Knowledge in Recipient Countries

While the learning components of most foreign aid are project/program specific, the process of development is itself complex and broad-based. Local capacity is needed to integrate learning across donor projects with knowledge of indigenous institutions. Sida can help recipient countries increase their in-country ability to create and analyze alternative forms of development and institution building, based on analyses of incentive structures. Such an enterprise may be most useful in Africa, where educational opportunities for such training are highly constrained.

We suggest that Sida fund a program that (1) identifies scholars in several major African universities interested in development and institutions; (2) fund said scholars for at least one year at competitive salaries; (3) train them in institutional analysis and development, using both African and non-African academics as source persons; (4) help them develop a syllabus for such courses at their own institutions; (5) help them to create materials for such a course; (6) support their teaching of this course to undergraduates, graduates, and interested policymakers; and (7) bring these scholars together annually to create better courses based on their ongoing research and experience. Such a program would be innovative and on the cutting edge of development: a direct effort to give recipients the tools to evaluate the development assistance they receive.

Sida Studies in Evaluation

- 96/1 Evaluation and Participation – some lessons. Anders Rudqvist, Prudence Woodford-Berger
Department for Evaluation and Internal Audit
- 96/2 Granskning av resultatanalyserna i Sidas landstrategiarbete. Göran Schill
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- 96/4 The Environment and Sida's Evaluations. Tom Alberts, Jessica Andersson
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- 99/1 Are Evaluations Useful? Cases from Swedish Development Cooperation. Jerker Carlsson, Maria Eriksson-Baaz, Ann Marie Fallenius, Eva Lövgren
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- 99/4 Managing the NGO Partnership. An assessment of stakeholder responses to an evaluation of development assistance through Swedish NGOs. Claes Lindahl, Elin Björkman, Petra Stark, Sundeep Waslekar, Kjell Öström
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- 00/5 Ownership in Focus? Discussion paper for a Planned Evaluation. Stefan Molund
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- 01/01 The Management of Results Information at Sida. Proposals for agency routines and priorities in the information age. Göran Schill
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