



**Aid, Incentives,
and Sustainability**
**An Institutional Analysis of
Development Cooperation**
Elinor Ostrom, Clark Gibson, Sujai
Shivakumar, Krister Andersson
Sida Studies in Evaluation 02/01

**... in some cases the
sustainability of aid is
undermined by
incentives created by
aid itself.**

Incentive Analysis – a Tool for Sustainable Development

Despite good intentions international development cooperation sometimes produces disappointing results. Sida, along with other development cooperation agencies, recognizes that lack of appropriate *incentives* may be an important factor working against the sustainability of aid, and that in some cases the sustainability of aid is undermined by incentives created by aid itself. But exactly how do incentives affect outcomes, and how could they be modified to foster more sustainable results?

In order to find answers to these questions, Sida's Department for Evaluation and Internal Audit commissioned a team of researchers from the Workshop in Political Theory and Policy Analysis at Indiana University to study how aid, incentives and sustainable development are interrelated. Elinor Ostrom, Clark Gibson, Sujai Shivkumar and Krister Andersson were the members of the team.

The resulting study – Aid Incentives and Sustainability. An Institutional Analysis of Development Cooperation (Sida Studies in Evaluation 02/01 – recommends that Sida integrate incentive analysis into the planning and evaluation of its development cooperation portfolio. It argues that incentive analysis can help Sida become better at *diagnosing* and *addressing* some of the most serious obstacles to sustainable outcomes in Sida's international development program.

Purpose and approach

The study had three purposes. First, to review recurrent incentive problems in development cooperation. Second to develop a method of analysis that would be useful for Sida in assessing how different combinations of stakeholder incentives influence the long-term results of

activities that it supports. Third, to illustrate the use of this method. For the latter purpose, six separate case studies were carried out: five studies of development projects supported by Sida in India and Zambia, and a more general study of incentives among Sida staff and project consultants employed by Sida. During the course of the study the research team interviewed more than 175 people representing a wide range of stakeholder interests in Sweden, India and Zambia.

The study builds on the so-called Institutional Analysis and Development (IAD) framework, a model for incentive analysis developed by Elinor Ostrom and her associates. Within the IAD-framework, development problems are viewed largely as problems of collective action. In developing countries such problems are more severe than in developed countries, the report claims. This is because institutions tend to be weak or ill-adapted to local development needs. In some types of situation kinship, community and other small-scale institutions may provide the trust and rewards necessary for joint action, but often institutional frameworks are inadequate or missing. Reforming institutions – changing the rules of interaction – tends to be difficult, for the incentives preventing solutions to particular collective action problems may also stand in the way of institutional change.

International development cooperation is intended to strengthen the capacity of developing countries to deal with problems of collective action and institutional change. By providing them with additional resources, however, and in the process creating new constellations of incentives, it may aggravate existing collective action problems rather than help

...feedback links from the intended beneficiaries to donor agencies and other key actors tend to be weak to non-existent

In one case,... the participation of beneficiaries was effectively blocked by project owners who had "incentives to receive aid but to delay reform."

solving them. External support may undermine local effort and initiative, for example, or it may be used to buttress existing asymmetries of wealth and power. For international development agencies like Sida, understanding the dynamics of collective action is doubly important. It helps them understand what development is all about as a social and political process, and it gives them a deeper understanding of how external agents of change like themselves can contribute or fail to contribute to this process.

The study clarifies important, but often misunderstood, concepts such as institution, incentive, ownership, collective action, and sustainability. *Incentives*, notably, are the rewards and punishments that individuals perceive as related to their own actions and those of others. Incentives that produce unintended and counterproductive outcomes are known as *perverse incentives*, while the outcomes themselves are called *perverse outcomes* or *perverse effects*. Incentives are partly the products of the rules or *institutions* governing action in a given context. A *collective action situation* occurs when the input of several individuals is required to achieve a desirable joint outcome, and a *collective action problem* arises when the actions of individuals generate a perverse outcome. By *sustainability*, the report refers to the longevity of the *benefits* from development cooperation efforts. The production of long-term benefits for the poor is the main purpose of development cooperation. The focal question of the study is how different constellations of incentives among stakeholders affect the achievement of this goal.

Because of their central importance in explaining the dynamics of collective action a variety of basic incentive problems are presented in detail in the report. Some of the reviewed problems are concerned with the motivation of actors to engage cooperatively with each other, others with missing or asymmetric information among actors. There are discussions of public goods and free-riding, common-pool resources, principal-agent problems, power asymmetries, problems of moral hazard, adverse selection problems,

and the puzzling problem of helping known as the Samaritan's Dilemma. Several of these problems are given concrete illustration in the five project case studies.

Beneficiary ownership

In development cooperation there are many groups of actors, each with more or less power to influence outcomes. The intended beneficiaries of the activities are often marginalized. While improving beneficiaries' welfare is the ultimate goal of project aid, feedback links from the intended beneficiaries to donor agencies and other key actors tend to be weak to non-existent. Neither donor nor recipient politicians have much accountability to beneficiaries. As pointed out in the report, the lack of beneficiary involvement is likely to exclude knowledge and skills that could be used to foster successful interventions for collective action problems.

In Sida's view, partner country ownership is a prerequisite for sustainable development. Partner country ownership means that development cooperation activities are controlled by Sida's cooperation partners, the government or other organizations in the partner country responsible for the activity. It also means that beneficiaries are adequately involved in the planning, implementation and follow-up of activities. Applying the concepts of ownership and sustainability in practice, however, can be difficult. As illustrated by some of the case studies, the intended beneficiaries of projects may be ignored from decision-making processes. In one case, a forestry project in India, the participation of beneficiaries was effectively blocked by project owners who had "incentives to receive aid but to delay reform."

The study suggests that Sida would benefit from revisiting the issue of beneficiary ownership. Such an exercise would clarify how the critical issues of responsibility and accountability ought to be addressed in different stages of the development process. According to the study, four conditions of beneficiary ownership are necessary – though not sufficient – for sustainable outcomes:

1. Beneficiary owners need to express a *demand* for aid;
2. Beneficiary owners need to exercise some *control* over the resources made available;
3. Beneficiary owners need to allocate some of their own *assets* to the project or program so that they have a real stake in the way the combined assets are used; and
4. Beneficiary owners need to have clear assignments of responsibility and be able to *participate in decisions* regarding continuation and termination of projects.

Constructing programs that meet these criteria is a formidable task. Genuine devolution of ownership may mean less control for Sida and its contractors. Less control, however, does not mean less Sida involvement. The study finds that Sida staff can, and often do, play crucial facilitative roles in ensuring that ownership of activities is anchored primarily with beneficiaries, and not taken over by individuals within recipient organizations or other stakeholders.

Incentives within Sida

According to the report, the incentives that emerge in each Sida-supported undertaking are greatly influenced by Sida's actions, or the lack thereof. A question therefore arises whether incentives within Sida are such that staff members are motivated to increase their understanding of the connections between incentives and sustainable development, and whether they are also able and well motivated to translate their understanding into action.

The study found that Sida has been successful in creating an internal environment that encourages cooperation among staff members and commitment to the organization's goals. On the other hand, it did *not* find many incentives for staff to learn about *sustainability* per se. The Sida desk officer and the intended beneficiary of his or her professional efforts are often separated by many intermediaries, each one transmitting information selectively in accordance with his or her interest. In this situation, it can be very difficult for the desk officer to know and understand what is happening on the ground.

The interviews with Sida staff suggest that there are several obstacles for staff to learn about sustainability in partner countries:

- Sida staff members typically rotate relatively rapidly between assignments, which fosters development of generalists rather than professionals with deeper understanding of the particular circumstances and culture of recipients and beneficiaries.
- Sida has too few mechanisms to ensure effective post-field knowledge transfers. Staff members returning from the field possess valuable insights about the partner country context, actors, and the prospects for sustainability, but this knowledge is rarely utilized by the individuals who replace them.
- The growing proportion of temporary staff negatively affects learning. The proportion of temporary staff to permanent staff has shifted from 11.7 percent in 1995 to 15.1 percent in 1999. While temporary staff may have considerable knowledge and skills, short-term contracts inhibit staff from absorbing detailed knowledge about conditions for sustainability.
- Sida's career advancement criteria are unrelated to performance of past projects in terms of sustainable development outcomes, which has negative implications for staff incentives.
- Formal evaluations are not used to their fullest extent to contribute to new knowledge about project results. Sida rarely involves significant partner country stakeholders directly in the evaluations of project activities. In addition, evaluations tend to come too late in the project cycle to affect key decisions and outcomes. More than four out of five of the interviewed Sida staff members considered evaluations largely ineffective in terms of learning.

Incentives created by Sida's budget process

All government agencies tend to face considerable pressure to disburse their funds within the budgetary year in which they are appropriated. Sida is not immune from this tenden-

...Sida staff can, and often do, play crucial facilitative roles in ensuring that ownership of activities is anchored primarily with beneficiaries

More than four out of five of the interviewed Sida staff members considered evaluations largely ineffective in terms of learning.

cy. Two-thirds of the interviewed Sida staff members indicated that disbursement rates were actively monitored by their managers in the day-to-day business.

The push to disburse draws from constraints at the higher levels of political decision-making. While there is pressure from the public and their representatives in the Parliament to spend aid resources in a responsible manner, Sida is also under pressure to demonstrate that it is indeed able to exhaust the allocated funds. According to the study, the pressure to disburse may lead to a focus on quantity and speed rather than quality and content in the management of resources.

Incentives for Sida's contractors

Sida often relies on consultants to provide expert advice and to design, implement, and evaluate projects. Consultants also often monitor field activities. In many cases, contractors – rather than Sida staff – have the closest and most regular contact with aid recipients, which has important implications for the sustainability of development cooperation activities.

As noted above, Sida policy urges that recipient organizations take ownership of projects. Were this policy applied, recipient owners would make key project decisions and supervise the contractors. Instead, the research team found that consultants and recipients often perceive Sida desk officers as the *de facto* supervisors of activities. Since consultants face strong incentives to please Sida and Sida often only sees the short-term results of a contract, a consultant concerned with possible future contracts with Sida is likely to exercise as much control over a project as possible, and not delegate decisions to the intended benefi-

ciaries. These incentives may lead to an exaggerated control by the consultant and compromise the beneficiary's ownership.

Recommendations

The following are some of the main recommendations from the study:

- Sida should revisit its position regarding ownership and make beneficiary ownership its main concern. The implications of ownership for accountability and responsibility should be clarified. Sida staff should articulate which specific responsibilities they seek to devolve to which actors, and how actors can be held accountable for their actions. Beneficiary organizations should be assigned a greater role in the hiring, monitoring and releasing of consultants.
- Sida's position regarding sustainability should be reexamined. In each of the activities it supports, Sida should make clear precisely what is intended to be sustainable, how the Swedish support helps produce sustainability, what time frame is being used, and how sustainability will be measured.
- Incentive analysis should be a regular component of ex ante and ex post evaluations of projects and programs supported by Sida.
- All those affected by projects – particularly beneficiaries – should be involved in evaluations initiated by Sida. Evaluations should be actively used as tools for learning.
- There should be regular training programs helping Sida staff to understand and analyze issues of incentives and sustainability in development activities supported by Sida.

...the pressure to disburse may lead to a focus on quantity and speed rather than quality and content

Sida's Management Response

To ensure that the findings and recommendations of evaluations commissioned by the Department for Evaluation and Internal Audit and other Sida departments are properly taken into account by Sida, Sida's response to an evaluation is formally documented in a plan of action. The full response to the study presented in this newsletter is available on Sida's home page on the Internet (<http://www.sida.se>). Sida's Chief Controller summarises the response as follows:

Sida's management response to the study focuses on the second part of the study, concerning Sida's organisational learning and methods for evaluation.

Sida finds that the study has limitations of methodology, as regards its perception of Sida's fundamental role in development cooperation. Sida during the 90s adopted an approach to development cooperation that is based on partnership, the cooperating partner's ownership and genuine demand. The conditions for ownership that the study formulates have in fact been applied by Sida for a long time.

At the same time, the study points to issues that Sida has found important and is actively working on, such as learning within development cooperation, ownership issues and awareness of incentives.

The importance of institutional frameworks is emphasised in Sida's policy on capacity development and in staff training based on this policy. In order to further strengthen Sida's ability in this area, Sida intends to develop a practical tool for analysis of institutions and incentives that provides adequate guidance to Sida's staff.

Sida rejects the suggestion that the sustainability of development outcomes can be promoted by making career opportunities and rewards within Sida dependent on project performance. It is based on a misunderstanding of Sida's role and the preconditions for achieving sustainable development, implies that Sida owns and controls the projects and would if implemented provide incentives for Sida staff to engage in "easy" projects in "easy" countries at the expense of more complex and difficult projects in countries that lack the necessary institutions and frameworks, but where development cooperation is highly needed. That would in fact contradict Sida's fundamental role and mission and thus entail risks of unwanted incentives.

The study recommends that evaluations should be active tools for learning. Sida agrees with this recommendation, which is in line with Sida's evaluation policy, and intends to further promote the development of the evaluation instrument in that direction. More joint evaluations and support for the building of cooperating partners' evaluation capacity are key elements in this context.

Posttidning B

Avsändare: Infocenter
Swedish International Development
Cooperation Agency (Sida)
S-10525 Stockholm, Sweden

Recent

Sida Evaluations:

02/40

Evolving Strategies for Better Health and Development of Adolescent/Young People: a Twinning Institutional Collaboration Project in India by MAMTA and RFSU

Gordon Tamm, Rukmini Rao, Viveca Urwitz

02/39

Participatory Research in Asia (PRIA) to Support Democratic Decentralisation in India

James Manor, R Parasuram, Anand Ibanathan

02/38

Samata's Centre for Advocacy and Support – Project Activities and Directions for Future in India

R. Sridhar, R. Rajamani

02/37

Country Plans: the missing middle of Sida's country strategy process

Samuel Egerö, Göran Schill

02/36

Implementation of the 1999-2003 Country Strategy for Swedish Development Cooperation with Laos

Dan Vadnjal, Tim Conway, Jan Rudengren, Marc Juville

02/35

Implementation of the 1999-2003 Country Strategy for Swedish Development Cooperation with Vietnam

Bob Baulch, Mick Moore, Anuradha Joshi, Jan Rudengren

02/34

Syntes av Svenska Enskilda Organisations Utvärderingar

Holger Nilén, Per-Ulf Nilsson, Jocke Nyberg

02/33

Supporting Ownership: A Study of Swedish Development Cooperation Programmes in Kenya, Tanzania, and Uganda

Volume I: Synthesis report

David Andersson, Chris Cramer, Alemayehu Geda, Degol Hailu, Frank Muhereza, Matteo Rizzi, Eric Ronge, Howard Stein and John Weeks

02/33:1

Supporting Ownership: A Study of Swedish Development Cooperation Programmes in Kenya, Tanzania, and Uganda

Volume II: Country studies

David Andersson, Chris Cramer, Alemayehu Geda, Degol Hailu, Frank Muhereza, Matteo Rizzi, Eric Ronge, Howard Stein and John Weeks

02/32

Programa de protección a las poblaciones afectadas por la violencia en Perú

Raúl Lizárraga Bobbio, Lilian Sala Morin

02/31

Welfare Economic Assessment – Reconstruction of 11 Bridges in Honduras

Kjell Jansson, Hans Örn, Alf Carling

02/30

Sexual and Reproductive Health of Youth in Northwestern Russia: an Evaluation of the project

Ivonne Camaroni

02/29

Network for Research and Training in Tropical Diseases in Central America – NeTropica 1999 – 2002

Mikael Jondal

02/28

Two Drylands Research Programmes in Eastern Africa: Main Report

Tom Alberts, Seme Debela, Coert Geldenhuys

02/27

Caritas Sweden Programme for Peace, Democracy and Human Rights in South America, 1997 – 2001

Jocke Nyberg, Lilian Sala, Anna Tibblin

02/26

GRUPHEL towards a Fourth Phase: an Assessment

Bertil Egerö

02/25

Swedish/UNDP Governance Programme in Honduras

Lars Eriksson, Lena Blomquist, Margarita Oseguera

02/24

UAPS enters the 21st Century: Final Report from Assessment

Bertil Egerö

02/23

Sida Supported Programme within the African Energy Policy Research Network (AFREPREN)

Joy Clancy, Ian H. Rowlands

02/22

Water Utility Partnership's Project for Water Utility Management and Unaccounted for Water, Phase 1

Olle Colling

02/21

Support to Regional Development in Estonia through Business Development: an Evaluation of the NUTEK Implemented Projects 1992-1998

Claes Lindahl

02/20

The Partnership Programme of the Swedish Mission Council (SMC)

Gordon Tamm, Charlotte Mathiassen, Malin Nystrand

02/19

Estrategias de Suecia y Holanda para la Promoción de la Equidad de Género en Bolivia

Tom Dahl-Östergaard, Sarah Forti, Mónica Crespo

02/18

Development of a National Quality Infrastructure in Namibia

Bertil Sjöberg

02/17

Sida Supported ICT Projects at Universities and Research Organizations in Sri Lanka

Alan Greenberg, George Sadowsky

02/16

Network for Research and Training in Parasitic Diseases at the Southern Cone of Latinamerica (RTPD) 1995/1996-2001

Alvaro Moncayo, Mikael Jondal

02/15

Regional Centre for Reproductive Health Research and Training, Harare, Zimbabwe: Reproductive health research, capacity building and health care improvement in eastern and southern Africa

Ulf Högberg

02/14

Area Development Projects, Poverty Reduction, and the New Architecture of Aid. Volume I: Synthesis Report

John Farrington, Ian Christoplos, Roger Blench, Karin Ralsgård, Stephen Gossage, Anders Rudqvist02/14:1

Area Development Projects, Poverty Reduction, and the New Architecture of Aid. Volume II - Case Studies: CARERE/Seila, Cambodia; ANRS, Ethiopia; EEOA, Zambia

Roger Blench, Karin Ralsgård, Stephen Gossage, Dessalegn Rahmato, Guy Scott

02/13

Sida's Support to the Reproductive Health and TANSWED HIV Research Programmes in Tanzania

Lotta Melander, Nelson Sewankambo, Rodolfo Peña

02/12

Strengthening the Capacity of the Office of Vietnam National Assembly

Göran Andersson, Pär Granstedt, Barbro Rönmo, Nguyen Thi Kim Thoa

02/11

UNICEF's programme for Water and Sanitation in Guatemala, El Salvador and Honduras 1998-2001

Nils Öström, Leticia Velásquez, Julio Arias

02/10

Assessment of Sida's Support to the Basic Sciences in a National Context

Eva Selin Lindgren, Shem O Wandiga

02/09

Sweden's and Holland's Strategies for the Promotion of Gender Equality in Bolivia

Tom Dahl Östergaard, Sarah Forti, Mónica Crespo



January 2003

Sida Evaluations Newsletter presents summaries of evaluations and methodological studies, commissioned by Sida alone or in partnership with other donor agencies. The views and interpretations expressed in the presentations are those of the authors of the reports and should not be attributed to Sida. *Sida Evaluations Newsletter* is published by the Department for Evaluation and Internal Audit. Publisher: Stefan Molund. Comments and subscription enquiries may be addressed to the editor: Mr Göran Schill, Department for Evaluation and Internal Audit, telephone: +46 (0)8 698 5392, fax +46 (0)8 698 5610, e-mail: goran.schill@sida.se. The newsletter is also available on Internet: <http://www.sida.se>

Presented and backlisted reports may be ordered from:

Sida's publication service
Phone: +46 (0)8 506 423 80
Fax: +46 (0)8 506 423 52
E-mail: sidaorder@elandersnovum.se

Reports are also available at:

<http://www.sida.se>
Art.no: Sida2128en