Sida Evaluations *Newsletter*

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4 | 98

The sustainability enigma

Background

Aid dependency has become a concern in aid during the 1990s as a result of insufficient progress turning aid into a permanent industry in some countries. At the outset, in the 1950s and for several years, aid from industrialized countries was assumed to be a temporary measure to help countries newly emerging from colonialism to bring about self-sustained development, and development was expected to follow a linear pattern. Looking back, these expectations have not been fulfilled. In fact, development in many aid receiving countries has been, and still is, erratic and far from sustainable. As a result, in later years 'aid fatigue' and pessimism about the value of giving aid have emerged, and aid has increasingly been seen as a contributary cause of the failures of poorly performing nations. The term aid dependency depicts various negative manifestations of the aid relationship, and in the development literature it is mostly discussed in the context of the demand side of the aid relationship, i.e. the developing country partner, rather than the supply side.

Tanzania today is the epitome of an aid-dependent country, some would say a country devastated by aid. Few countries have received so much foreign aid from so many different donors, or have been treated with so much concern by the donor community as Tanzania. At the same time, Tanzania has slid back from the upper levels amongst low income countries in the 1970s in the World Bank's tables to become one of the poorest nations in the world. The donors and Tanzania appear to have become trapped in a mutually unsatisfactory relationship, unable to break out of the shared dependency.

Tanzania has continuously been the largest single recipient country for Denmark, Norway, Sweden and Finland, accounting for 7 to 15 per cent of all aid from these countries since the late 1970s (OECD, 1993). Sweden is Tanzania's largest bilateral donor seen over

The Sustainability Enigma - Aid Dependency and the Phasing Out of Projects. The Case of Swedish Aid to Tanzania
By Julie Catterson and Claes Lindahl, Management Perspectives International, Stockholm, 1998; a study commissioned and published by EGDI (see box).

An EGDI publication

The Expert Group on Development Issues, EGDI, was appointed by the Swedish Government in September 1995, to initiate studies intended to contribute towards a deeper understanding of basic problems of development and towards the design of efficient international development cooperation. EGDI devotes special attention to policy analysis and current development cooperation policy, both Swedish and international, and also to specific development programmes.

The group at present has fourteen members, ten of whom (including five from the Nordic countries) are experts in various fields, with special emphasis on economics. EGDI is chaired by the Under-Secretary of State for international development cooperation. A small secretariat is affiliated to the group.

EGDI decides on the choice of subjects and authors for the studies it commissions. These studies are presented by their respective authors to the Expert Group, which submits them to the Ministry of Foreign Affairs after qualitative appraisal. The authors alone are responsible for the content of the studies. For each study or subject field a special reference group is set up, consisting of experts in the field concerned. The following subjects have been addressed hitherto:

- Aid dependency (dependency on development assistance).
- Trade and international money markets.
- Learning in development cooperation organizations.
- Capacity building and financing of current expenditure.
- The economic and social role of children.
- Effects of economic reforms on rural communities in Africa.

Aid dependency is a central theme of the study "The Sustainability Enigma", which is presented, in consultation with EGDI, in this issue of *Sida Evaluations Newsletter*.

Studies approved by EGDI are published as "EGDI publications". Background material produced within the various reference groups is published as "EGDI Working Papers".

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the long term. Disbursements to Tanzania during 1970-96 have totalled USD 1,826 million (current prices) accounting for 16 per cent of all bilateral aid to the country, and 11 per cent of all ODA to Tanzania for that period. Only the World Bank, with a disbursement of USD 2,091 million, is larger. Sweden's unique role as a bilateral donor to Tanzania refers mainly to the period before 1992, and was motivated primarily by political solidarity and the strong personal friendship between Olof Palme and Julius Nyerere. Swedish aid to Tanzania built up in volume in the 1970s and was largely focused on industry, education and infrastructure in support of Tanzania's Basic Industry Strategy (BIS). During the 1990s Sida has been phasing out these sectors in pursuit of a concentration strategy.

The study

This is the background to a study, commissioned by the Expert Group for Development Issues (EGDI - see box) linked to the Swedish Ministry of Foreign Affairs, focusing on phase-out issues as an element of aid dependency and entitled *The Sustainability Enigma - Aid Dependency and the Phasing out of Projects. The Case of Swedish Aid to Tanzania.* Ultimately the issues to be addressed by the study were: What is the relationship between aid dependency and project phase-out performance, and thus what is the relative importance of 'good' phase-out performance for reducing aid dependency? What are the elements that make for 'good' phase-out performance? The study was to contribute to the formulation of a framework for the improved design of development cooperation projects in order to enhance the sustainability of the activities supported.

The study uses Tanzania as a case study, reviewing the macro aspects of aid dependency, and giving special attention to micro aspects. The basis for the study is twelve development projects funded by Sweden during the last two decades. The project sample is representative of Swedish aid involvement in Tanzania and covers all the major sectors. Tanzania was selected (by EGDI) as a case for this study because the country is seen to represent an extreme in terms of aid dependency, and consequently illustrates clearly certain underlying causes of aid dependency and issues in phase-out.

The methodology for the analysis of the projects was based on a five-fold project typology, each type representing a different outcome with regard to project success, phase-out (whether or not the project had been phased out and whether this was done in a timely manner) and sustainability. From the case study work, conclusions were to be drawn and lessons made about the importance of good/bad phase-out for success and sustainability, and the elements of good phase-out. The study is based on a conceptual framework aiming to capture the interplay between aid dependency, effectiveness, sustainability and phasing out.

The study was undertaken by Julie Catterson and Claes Lindahl of Management Perspectives International (MPI), a Stockholm-based firm of development consultants with representation in Africa and in Asia. Dr. William Lyakurwa, African Economic Research Consortium (AERC), Nairobi, an associate of MPI, and Professor Samuel Wangwe, Economic and Social Research Foundation, Dar es Salaam, provided valuable Tanzanian perspectives on aid dependency. Petra Stark of MPI provided research support in connection with the case studies. The study was undertaken between October 1997 and February 1998, with field work in Tanzania during December 1997 and January 1998. A wide range of project stakeholders on both the Tanzanian and Swedish sides were interviewed in connection with each project.

Following is a summary account of the findings, recommendations and lessons learned discussed and presented in the report.

Findings

The main finding in the case material is that lack of financial sustainability on the part of the institutions supported is a main obstacle to project phase-out. This lack of financial sustainability cannot be explained purely in terms of Tanzania's overall poor macro-economic environment (since some institutions are managing to survive in it while others are not), but with a series of project-related factors. The study discusses each of these factors in some detail. They include:

- An overly technical approach and an unrealistically high technical level, making projects islands of development, increasingly isolated from the reality of their environment and increasingly difficult to phase out.
- A corresponding lack of financial, organizational and managerial skills. As a result of the heavy focus on technical issues, financial and managerial problems are often not given sufficient attention until the tail end of a project.
- Distorted incentive structures. The bargaining positions of parastatals and local government vis-à-vis central government are eroded by central government's insistence that donor funds will always be found to support development budgets. Also, Tanzanian institutions that have been supported by Sida can often expect to get aid from other sources as Sida withdraws, and are thus not encouraged to introduce financially sustainable strategies. A further problem, though on the donor side, is the setting up of disbursement targets.
- The lack of attention to cost-effectiveness has significant consequences for financial sustainability. Often neither the donor nor the recipient have any sense of what is reasonable (and affordable) to spend in order to achieve a certain objective. This lack of attention to cost-effectiveness is also one explanation for the failure to phase out in a timely manner in projects which are failing since there is no brake on 'bad' spending.
- Lack of consistency on the part of Sida, in supporting structural adjustment at the macro level from the mid 1980s and pursuing a 'business-as-usual' approach at the project level for at least another ten years.

There are also other factors impeding phase-out besides those, as above, more or less directly related to financial sustainability. One such factor is a false assumption of synergy in aid, one example being that of the assumed synergetic effects of tandem projects in the power and industry sectors. In fact, however, aid has in some cases created inflexibilties which threaten the sustainability of institutions as Sida phases out.

Yet another factor influencing sustainability and the prospects of phase-out concerns stakeholders' vested interests. Contrary to what is usually claimed by the donor, the study finds that implementation consultants and Swedish institutions, researchers etc. are rather powerless in prolonging a project once Sida has taken the decision to phase out, although they can encourage project continuation where there is no firm decision to phase out. Their impact is more strongly felt in preventing local ownership, which is vital to attaining 'good' phase-out.

In most of the projects reviewed, phase-out decision-making has usually taken place as a unilateral decision by Sida management based on administrative factors rather than on the more difficult questions of success and sustainability. Sida's general policy of saving aid management capacity by concentration (i.e. by downsizing and focusing of project portfolios) during the 1990s, which in Tanzania resulted in a phase-out from a number of sectors, was intended to produce greater aid effectiveness but appears to have mainly been a fire-fighting exercise to reduce mounting workloads at Sida.

It was also found that this policy of concentration sometimes influenced evaluations whose recommendations to phase out rapidly sometimes did not reflect their own analyses. The low status attached to regular monitoring of projects in the case material has made the job of the evaluators even more difficult, so that the possibility of an objective and accurate evaluation is very much compromised. The selection of evaluators is also a factor influencing the quality of the information regarding organizational and financial sustainability. Evaluation teams frequently consist only of specific technical subject-matter specialists rather than including individuals with expertise in management and organization.

Recommendations

Prior to making its own recommendations, the study reviews and assesses some of the main efforts made by Sida (and other aid agencies) in order to address some of the issues identified above. These include development of a so-called partnership policy; aid coordination; concentration; matching funds and performance orientation; Logical Framework Analysis; and, promoting ownership through participation. However, the study concludes that all of these efforts, though well-intentioned, are being made within an aid system which thwarts sound development. This is because the system is highly supply-driven and public-sector-focused, and because the supplier (the donor) bases his decisions on administrative concerns rather than on knowledge about what makes for success and sustainability.

The recommendations made by the study go well beyond policy guidelines concerning phase-out. The authors believe that without addressing the underlying causes of ineffective aid, aid dependency and poor sustainability, no guidelines for phase-out, in its narrow sense, would achieve much. The recommendations are based on two conclusions. One, that in order to be effective and efficient Swedish aid must be shifted from a supply-driven, disbursement oriented venture towards a demand driven, performance oriented one. Two, that it focuses on becoming a knowledge-based service venture rather than continuing as an institution centred on the administration of aid flows.

The study makes nine specific recommendations in order to achieve these overall objectives. They include the dismantling of mechanisms that distort incentive structures, such as donors' disbursement targets and country frames. Recipient countries should be encouraged to introduce competitive demand for aid amongst a wide range of players rather than the donor acting so as to promote government expectations that it will always receive more money from aid sources and therefore does not need to focus much on success and sustainability.

Other recommendations concern e.g. new styles and approaches in joint ventures and long-term joint sector programmes; efforts to enhance the assessment of cost-effectiveness; development of strong information systems, and also establishment of service-oriented institutions in finance, organization and management skills; and, not least, the orchestration of vested interests, requiring that the donor recognizes and adopts its rightful role as a governing stakeholder.

Lessons learned

The study presents a number of lessons learned with a view to project/programme success, sustainability and phase-out. Some of the main ones are summarized as follows.

First, decisions on whether and when to continue or phase out should be based on knowledge about how the project/programme is developing and the requirements for success and sustainabiility. In the case of Swedish support to Tanzania, however, the linkage between project success and sustainability on the one hand and phase-out decision-making on the other, has been weak. This is mainly an effect of two management tendencies within Sida. One is a strong feeling of 'ownership' of projects by individual staff responsible for managing specific projects for long periods of time, leading to an irrational, sometimes quite emotional defence of these projects. The other is a decision-making process strongly biased toward administrative concerns, where the reality of projects is not adequately taken into account.

Effective aid requires a different management of project portfolios, one in which decision-making is firmly based on knowledge. While Sida over the years has worked hard to accumulate knowledge in development assistance, it has often not succeeded in translating this knowledge into the required action at moments of vital decision-making. This is due to two factors: the strong supply-driven nature of aid, where disbursement becomes the key objective, and, secondly, the tendency of donor governments to underrate the local conditions and resources required for effective project management.

Second, Sida's orchestration of the role of consultants in project design and implementation is vital to the outcome. The various project stakeholders will naturally seek to maximize the duration and size of a project, as well as their own respective roles. A common expres-

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sion used by Sida staff to explain why phase-out of some projects is so difficult is that 'they live their own lives'. This of course implies an unacceptable approach. It is vital for success in terms of phase-out and sustainability that the donor adopt a realistic and responsible approach to its role as funder. This means appreciating its governing role in the aid web and making use of its decision-making powers.

Third, the problems of sustainability in Tanzanian projects are primarily a question of financial sustainability rather than of technical competence. Swedish aid-financed projects tend to be overly focused on technical matters (e.g. building up a competence in health or in statistics). When financial sustainability becomes an issue, projects have great difficulties in making required technical adjustments. In many cases there is instead a tendency to try and solve problems by continued technical improvement. This undermines sustainability and causes aid dependency. In institutional cooperation, there is no incentive for the firm or institution providing the technical know-how and assistance to wean its local counterpart off aid, rather an incentive to continue. Sida's capacity to counteract such tendencies is weak due to Sida's administrative approach to aid management.

Fourth, for successful projects, 'good' phase-out is about making sustainability a prominent goal at every phase of a project. Planning a blueprint for phase-out from the beginning, particularly in projects which are long-term, is no solution since flexibility and adjustment are required in changing economic conditions. Conversely, waiting until the last years of a project to consider sustainability issues, a situation that was found so frequently in the case material, is leaving things too late. One conclusion drawn in the study is that there is little likelihood of sustainability if this has not been a main concern throughout the project.

Phase-out seems less of a problem in projects which have an inherent capacity to generate revenues, such as commercial or semi-commercial operations. However, it does *not* necessarily follow from this conclusion that such projects have more significant development effects. Efficiency of implementation should be judged against the achievement of the overall Swedish development objectives. Some of the projects that have problems in phase-out may have a more important development impact than some of the projects that have been easier to handle in this respect (e.g. power plants and cement factories). ■

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Sida

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