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Un-Building Capacity. Some Cases From Africa

Olof Hesselmark

A Study from the EGDI Project
Capacity Building, Institutional Crisis and Recurrent Costs

**Ministry for Foreign Affairs
Stockholm
Sweden**



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Table of Contents

1. Introduction	1
2. Macro View	3
3. The Firm/Organisation	4
4. The Individual	5
5. Some Examples From Africa	5
5.1 <i>Tanzania Food and Nutrition Center (TFNC)</i>	6
5.2 <i>The Zambian Co-operatives</i>	7
5.3 <i>Tanzania Audit Corporation</i>	8
5.4 <i>Universities in Africa</i>	8
5.5 <i>Tanzania Central Bureau of Statistics (TAKWIMU)</i>	9
5.6 <i>Training of Optometrists in Tanzania</i>	9
5.7 <i>Department of Roads, Zimbabwe</i>	10
5.8 <i>The Bank of Zambia</i>	11
6. Discussion	12
7. What Can Be Done?	14

Un-Building Capacity. Some Cases from Africa

Olof Hesselmark

1. Introduction

During recent decades development agencies (Sida is mainly used as an example below) have supported a large number of projects with the objective of increasing the capacity of institutions and organisations in developing countries. There are hundreds of examples of this. For almost all projects, there has been a more or less explicit agreement that the support is for investment purposes, to build an institution, knowledge or capacity – the expression differs. The recipient was to provide the means to operate the result.

Operating or recurrent costs have been defined in different terms. The objective has mostly been that the recipient was to pay salaries and other costs for personnel, domestic travel, operating costs for buildings etc. It has over time become quite clear to everyone in the donor community that these funds have rarely been available. Over and over again the same process has been repeated: After training professional staff for years and building up functioning organisations, the salaries offered by the governments have been too low to keep the competent staff. The resources of the recipient country have been too small, and the donors have accepted increasing shares of the total costs of the projects. For example, if organisations with extensive field activities have been dependent on transport facilities, vehicles as well as funds to purchase fuel have been provided by the donors. Occasionally donors have put a stop to this practice, but they have soon resumed the activity. In most countries in Africa, many institutions have been dependent on donors for as much as 90 per cent of their budget for over ten years.

The purpose of this paper¹, is, by taking examples from a number of case studies, to explore in what way the lack of funds available in the recipient organisation to meet the operating (recurrent) cost obligations, has made many efforts at capacity building futile and non-sustainable exercises, and to draw some conclusions on how to tackle this problem.

The concept of recurrent costs is for most donor agencies synonymous with how much of the costs for a project is to be met by the donor or the recipient.² It is taken more or less for granted that there ought to be norms for cost sharing, but it is difficult to find any valid reasons for this. The norms often prescribe that the donor provides for investments, and the recipient for running costs. Simple accounting rules are often used to establish the norm. Traditionally, organisations use the calendar year as the basis for accounting. Funds that are not fully consumed during the year when they were acquired

¹ This paper has been commissioned by the Nordic Africa Institute for the EGDI project *Capacity Building, Institutional Crisis and Recurrent Costs*. As one of the members of the reference group, the Director of NAI, Mr. Lennart Wohlgemuth has contributed the basic idea and has given me enthusiastic support in writing the paper.

² "Kostnadsdelning i svenskt bistånd". SPM Consultants. Stockholm 1998.

are regarded as an asset, and ends up on the balance sheet. By definition it is then an investment. In that way, a car is an investment but fuel is not. This distinction becomes meaningless as soon as the time perspective is lengthened beyond what is used for accounting. In a five year perspective, most items are recurrent costs. Since all institution and capacity building projects are long term activities, the distinction is particularly meaningless in these cases.

Of all the recurrent costs, salaries have been the most controversial. Most donors and recipients have in principle agreed that donors should not pay direct salaries for staff. But knowledge organisations are nearly always extremely personnel intensive. Up to 90 per cent of their inputs are often directly related to the personnel. If a person leaves the organisation, not only is his/her salary removed, but also costs for travel, allowances, material etc. *In this sense, almost all costs are operating costs.* Investments in the accounting sense, buildings, vehicles, computers – constitute a minor part of the total, especially if the organisation has been built up over a long period.

The value of a knowledge organisation derives from its capacity to solve certain problems and to deliver knowledge. This ability is in the minds of the staff, not in walls, cars or computers. The value is accumulated over long periods of time through education, training, writing, reading and working together. It is not visible on any balance sheet.³

Many of the institutions Sida and other donors have supported in Africa cannot continue to operate without external support. Most African states lack the resources to run the institutions on their own – they cannot, or do not want to allocate scarce state funds to them. In some cases the "output" from the organisations is, however, so valuable to the country that donors and recipients agree to run the institutions – i.e. to provide for their recurrent costs - for some time. During the 1990s this has increasingly been the case when the state finances have imploded in country after country. A number of roundabout ways have been invented to hide the fact that payments are for salaries, but donors and recipients have rarely admitted that topping-up allowances etc. is in fact carried out just because normal salaries are too low to keep the organisation together.

The motives have been reasonable. Tanzania and other countries need for example well functioning budget and accounting departments and other central government institutions, they need more information and knowledge about nutrition, statistics are necessary about people, society and economics, the state needs auditors, research about AIDS is a question about survival. Since nearly all the institutions supported are state controlled, the staff are formally civil servants. The financial collapse of the states has eroded the real value of the salaries to a fraction of what they were ten years ago. The institutions are deserted, not in the number of staff, but in capacity and knowledge. Professional staff are forced to have several occupations, and they spend less and less time at the institutions. Their individual competence is eroded, knowledge disappears

³ During the last few decades, the number and size of knowledge organisations have increased rapidly in the industrialised world. Many knowledge organisations are now traded on the stock markets, and the market has mechanisms to give them a value. In Sweden, the share value of successful consulting firms is in 1998 between one and three million SEK per employee. The substance value according to the balance sheet is normally a fraction of this. The market is putting a value on the future capacity to produce value added – an estimate of future profits. This enables the market to separate successful companies from less successful ones.

when it is not made use of. This reduces the quantity and quality of the output from the institutions. A catastrophic destruction of knowledge and competence is occurring in Africa.

In the following analysis, the situation is viewed in three different perspectives: a macro view, the view of an individual firm or organisation, and from an individual's point of view.

2. Macro View

In the first decade after independence the supply of well-trained African professionals grew from a trickle to a small stream, as the first crop of graduates returned home with their university degrees. They were in great demand, and there were jobs for all. They were the best and the brightest, and many of them quickly found themselves in responsible positions where they could use their professional skills. In the 1980s, as the domestic universities started to pump out graduates, the stream became a flood and the supply multiplied. The growth of the governments provided an elastic demand for a certain period, but slowly all the slots became filled, and real salaries began to level off and to fall.

On the macro-economic level, inflation and the general economic crisis during the 1980s and 1990s led to dramatic reductions in the internally generated resources of most governments, and donor funds in some cases became a major source for government spending. Donors have had a considerable influence over the actual spending pattern of poor African states, each donor reflecting its own political agenda. The demand for skilled personnel has been supported through this process, and "the best and the brightest" have gravitated towards the areas favoured by donors. The result has in many cases been that countries have built institutions that go far beyond what the country can support on its own, even when donor funds are included. The development optimism of the 1960s presumed a rapid growth to "middle development" status, when African countries would need and be able to support advanced institutions of different kinds. When negative real growth occurred instead, the overheads became too high. Most institutions will only be able to survive with continued long term donor support.

The national resources available for spending for both development and recurrent costs of a country include external inflows, i.e. aid is included in the overall amount. This fact in itself implies that nations receiving substantial amounts of aid are not financially sustainable. When resources are projectised, as much of the external aid is currently, they are spread over a large number of projects. When aid to one project is terminated, the available funds are simply relocated to other projects. Normally, the termination of one project therefore has no effect on the macro-economic situation. The institution that has its project aid funding withdrawn, has two basic options: to find project funds from another donor, or to rely on the funds available through the normal government budget. The latter case often entails difficulties for the institution. It is therefore inconsistent for a donor who is prepared to continue supporting a certain country, to require financial sustainability on the project level. When this type of macro-economic imbalance exists, continued support to high priority institutions makes a lot of sense, and should therefore continue even if that involves providing long term support in the form of recurrent costs. What however should discontinue, and what is unsustainable, is to extend special

conditions to donor supported institutions through topping-up or creating special project implementation units.

The standard solution to deal with the proliferation of government institutions has for many years been "Public Sector Reform", something most countries in Africa have embarked on at the donors' insistence. The macro-economic rationale is that the size of the public sector must match the resources available in the country (including donors' funds). The recommendations have been to dramatically reduce certain areas, to decentralise, to give more financial autonomy and to privatise. The implementation has, however, often been difficult and half-hearted, and in many cases the end result has been only that salary levels for civil servants have been cut, not by design but by default through inflation. In many cases it has for political reasons been difficult to make the drastic reductions of staff required to meet the civil service reform goals.

3. The Firm/Organisation

For the individual organisation in Africa, attracting donor funds has often been the means to survival and growth. Many professional institutions in Africa - see some of the examples below - have received 80 to 90 per cent of their funds from donors for decades. In several cases excellent results have been achieved, but as soon as donor funds are withdrawn the capacity of the institutions is reduced. When the resources are withdrawn, key personnel soon start looking for alternatives, as they realise that this is the beginning of deteriorating working conditions. Doctors move from Zambia to South Africa, statisticians in Tanzania start working for private companies, university teachers try to get positions with international organisations, economists set up consulting companies to supply donors with investigation capacity. Those parts of the government that do not receive donor funds quickly lose their key staff as the organisation loses the ability to pay competitive salaries. This is a market driven process - there is always a donor or an organisation somewhere else that is willing to remunerate for professional excellence.

On the firm/organisation level alternating "good" and "vicious" circles have been operating. Universities have in many cases been the victims of vicious circles: political decisions to increase the number of admissions have not been matched by increases in resources. The quality of education is soon diluted, the most well-qualified teachers start to leave, unrest spreads among the students, the governments react by further reducing the resources and so on.

In every country there are several "low priority" institutions more or less deep down in the vortex of decay. When a government loses the ability to supply even the most central civil functions with adequate resources to function, the solution has often been a "bail-out" by donors.

A good circle is almost always donor supported: a priority area receives donor funds to build capacity, salaries and other staff benefits are allowed to increase, the quality of output improves, the capacity of the staff increases, external demand for the outputs is generated. The process attracts the most qualified people, who bring additional capacity, in turn creating more donor funds for certain projects and so on. Good circles are

fragile, however. Once donor funds are reduced - and they are *never* replaced by the same amount of government funds - there is a great risk for the negative process to start.

Donors have their own strategies in relation to individual institutions. Successful projects are good candidates for more funds, but in many cases success is dependent on good management. In most government institutions, however, government salaries are not competitive, and a way around the low salaries for managers must be found. If the donors are prevented (by their own internal rules) from paying direct topping-up, and if the most qualified managers have a good bargaining position, other compensation methods are found. The simplest method is various allowances (for travel, housing, education, consultancies, cars, foreign travel etc.). An alternative can be to create a separate project implementation unit outside the supported institution, and to hire individuals directly to this unit, by-passing the official management.

4. The Individual

The strategies of individuals differ depending on where they find themselves in the process. As long as donor funds are available, the most effective strategy is of course "to place oneself under the faucet". One should find out who is in control of the money, and what their objectives are; make alliances with those who influence the donors' decisions, be receptive to the donors' objectives, and come up with proposals that meet with the donors' approval; be active in project preparation phases, get the attention and praise of the donors and their representatives. This is the appropriate strategy to increase the flow of funds to the institution and to promote one's career. The final career step is to be directly employed through a donor organisation, preferably as an international expert in another country. Another option is to become a local consultant, working directly for the donors. In all events, the best strategy is to avoid employment under local government conditions.

For those unfortunate enough to find themselves employed by an organisation when donor funds are withdrawn, the strategy will be different. Government salaries in all African countries have been so eroded in the last ten years that it is no longer possible to survive on them. Structural Adjustment Programmes have led to large scale retrenchments, the prospects for advancement are slim and in any case the salary of a manager is not much better than for lower grades. Quiet withdrawal is often the strategy chosen in these cases. All over Africa, civil servants make only sporadic appearances at work. They try to make ends meet through small businesses, working the family farm or through a second job. The decay of offices and facilities, the lack of transport and equipment is combined with this absence, and the output of the institutions is effectively reduced to nil.

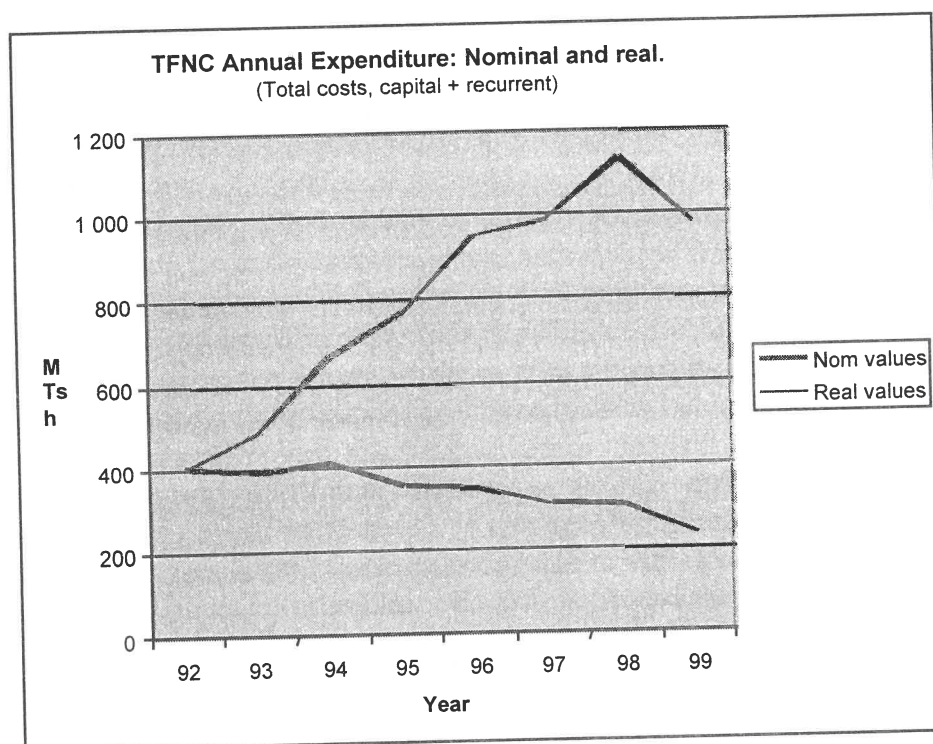
5. Some Examples from Africa

The study is based upon a number of evaluation reports and other documentation with regard to institution and capacity building from Sida and other organisations, and the remainder of this paper will describe a set of examples illustrating the un-building of capacity in Africa.

5.1 Tanzania Food and Nutrition Center (TFNC).

The TFNC has received support from Sida since its establishment in 1973.⁴ The project is widely regarded as a successful one, and the TFNC is regarded as one of the most advanced institutions of its kind in Africa. TFNC has for 25 years been built up with support from Sida and other donors in order to improve the food and nutrition standard in Tanzania. Sida has contributed between 40 and 50 per cent of the total budget during this period. Sida's and other donors' support has in reality been "recurrent", since the funds have been used for the operations of the Center.

Tanzania has had a serious inflation during the 1990s. In judging the sustainability of the operations, it is necessary to study the development of the real purchasing value of the budget of TFNC. This development is illustrated in the following chart:



The nominal value in Tsh has increased nearly threefold during the decade. (The values for 1998 are based on the budget for 1997/98. For 1999 an estimate was made, taking into account that Sida's support will be phased out in 1999.) The real value (1991 prices⁵) of the resources at the institute's disposal has in reality been halved during the decade. The Government's own contribution to the center has been around 20 per cent.

Per capita salaries between 1992 and 1996 seem to have doubled in real terms, and there is little doubt that this has been important for the Center's ability to keep their professional staff. Andersson also points out that the Center has been given more financial autonomy during the 1990s, and apparently this has been used to restore salary levels.

⁴ The analysis is essentially based on the report "Capacity Building, Institutional Crises and the Issue of Recurrent Costs", by Göran Andersson, SIPU International. Report to the Ministry of Foreign Affairs, February 1997.

⁵ The values have been deflated using Tanzania's Consumer Price Index. See Andersson, p.12.

The TFNC is a successful institution in the African context. This example shows how difficult things are in the best of the cases. All institutions have been victims of inflation and the reduction of real resources. The TNFC has been saved by the donors, and even then the capacity has been reduced to half. If the donors withdraw now – as they are planning to do – the center will be left with 10 per cent of its capacity from the beginning of the 1990s. Its ability to maintain salaries on a competitive level is clearly in danger. Staff will begin to leave, and its capacity to produce knowledge will then be effectively erased.

The TFNC has considerable political support in Tanzania and among the donors. The next example shows how political events can be an effective instrument in destroying knowledge and capacity.

5.2 The Zambian Co-operatives

In a recent research paper published by the Nordic Africa Institute⁶ the events in agricultural marketing in Zambia during the 1990s are described. During the UNIP regime up till 1991, there were close connections between the ruling party UNIP and the co-operative movement. The Zambian co-operatives had the task of handling the distribution and storage of crops in the country. Partly with Sida's help, a well functioning organisation existed throughout the 1980s. The activities were not financed properly, and there were fundamental errors in the pricing system, but the mechanics of collecting the crop, storing it and paying the farmers actually succeeded. The co-operative unions had staff and institutions with sufficient capacity (knowledge and know-how) to perform the task.⁷

When Kaunda and UNIP lost the election in 1991, the new government wanted to control grain marketing. Since the co-operatives were closely linked to UNIP, (and were late to realise the changes) the government decided to privatise grain marketing.⁸ The co-operatives were simply excluded from access to the new forms of financing that were introduced. Since they now lacked the operating capital necessary for grain marketing, the co-operative unions collapsed within a year from lack of business. The staff were scattered, and all their knowledge with them. A five year period of marketing chaos followed, and even at present, the new actors in grain marketing and input provision have not acquired the capacity once imbedded in the co-operative organisations.

In this case, the aim was to destroy the resource base for the political enemies of the MMD, but the victim was the food distribution system of the country. This effect was certainly not intended, but the example shows that institutional capacity is not a "quick fix".⁹

⁶ D.K. Chiwele, P. Muyatwa-Sipula, H. Kalinda: "Private Sector Response to Agricultural Marketing Liberalisation in Zambia". Research report no. 107, Nordic Africa Institute, Uppsala 1998.

⁷ This is based upon personal experience. Between 1983 and 1985 I worked as the Deputy General Manager for Lusaka Cooperative Union. It was not a perfect organisation, but it worked, it had competent staff and functioning institutions. It had knowledge and know-how about grain marketing.

⁸ D.K. Chiwele, P. Muyatwa-Sipula, H. Kalinda: "Private Sector Response to Agricultural Marketing Liberalisation in Zambia", p.65-67

⁹ In her essay *Urban Management and Democracy* (in "Institution Building and Leadership in Africa", Nordic Africa Institute, Uppsala 1998) Dr. Ann Schlyter describes a similar process with regard to local government in Lusaka's shantytowns. During the period of one-party rule, the ruling UNIP party organisation provided a structure for local government in the shantytowns, although these were not recognized by the city's City Council. When UNIP lost to the new MMD party in 1991, the local party organisations simply vanished, and they had not been replaced by new structures five years later.

5.3 Tanzania Audit Corporation

TAC was established in 1968, and received support from Sida until 1993. A total of forty to fifty person-years of technical assistance has been provided together with equipment and training. In addition to becoming a sustainable auditing firm, the TAC has over the years trained between 150 and 200 auditors for Tanzania.¹⁰ Originally this was not an intended result, but rather an effect of the salary structure for civil servants. The auditors soon found higher salaried employment outside the TAC, and to repair the losses the training programme was intensified. At Sida's insistence, the internal salary structure of the TAC was later corrected, but the training programme was kept because of the great demand for trained auditors in general. Many of these auditors work for other auditing companies in Tanzania. This training has been extremely valuable for the auditing capacity in the country.

The TAC will most probably become a private auditing firm in the near future. It has a reasonable level of competence, and with privatisation it will most likely be able to maintain and improve competence and capacity in its field. A private firm will not have the same incentive to train auditors, only to lose them to its competitors. It is therefore unlikely that the volume of training will be maintained by a private TAC, and other solutions will have to be found for this. The TAC could of course be asked to continue the training for suitable compensation. The current financial situation of the government does not allow it to pay for the training, however, unless donor support is found. There is a great risk that this particular capacity will be destroyed.

5.4 Universities in Africa

African universities have been severely hit by the economic recession, and much of the capacity created during the immediate post-independence period has been destroyed. The number of students has multiplied as a result of political pressures, the resource base has been eroded and the net effect is a system of tertiary education that produces increasing numbers of graduates with inadequate skills in areas where there are no employment opportunities. The monthly budget per student at Universidade Eduardo Mondlane in Maputo is about \$80 per month.¹¹ Considering that African universities in addition to training also provide food and housing for the students, it is not difficult to conclude that available resources are totally inadequate to provide a reasonable quality of education. The most serious effect has been on the availability of well-trained staff. The deterioration of the working environment, and salary levels well below what is required to sustain a family have led to a wide-spread brain drain from many African universities, both to the private sector and abroad. For example, the University of Zambia has closed five out of six research institutes and the number of Zambian teachers (senior lecturers and above) has dropped from 300 to 20 over a ten year period. There are no funds for books, the libraries are empty, the students and teachers are hungry. The universities are no longer the knowledge centres they once were. The destruction of knowledge has been massive in these institutions.

¹⁰ J. Catterson and C. Lindahl: "The Sustainability Enigma". MPI, Stockholm, 1998.

¹¹ Lennart Wohlgemuth: "Södra Afrika i ett framtidsperspektiv – med kunskapsutveckling i blickfånget". NAI, Uppsala 1996.

5.5 Tanzania Central Bureau of Statistics (TAKWIMU)

Takwimu has had a long co-operation with the Central Bureau of Statistics in Sweden. The objective was institution and capacity building in a broad sense.¹² Sida is currently financing about 40 per cent of Takwimu's budget, while the government pays about 10 per cent. An evaluation in 1994 found that the co-operation has led to a very considerable increase in specialist competence, and that it had dramatically enhanced the level of knowledge and skills in Takwimu.¹³ The institute could be self-sustained if only the question of domestic financing could be solved. (Keep in mind that donors provide 90 per cent of the budget.) After 1994, Takwimu has had increasing problems to finance its operating budget. It is currently operating at only 10-20 per cent of its capacity, due to lack of funds to sustain data collection. As in other parts of the Tanzanian economy, salaries have been eroded by inflation, and the best professional staff are leaving as soon as they see an opportunity for a better position. With the most qualified people leaving and little work for the rest, the professional capacity and competence are rapidly destroyed. Takwimu is a good example of a long-standing institutional co-operation with a Swedish counterpart. The Central Bureau of Statistics in Sweden supplies short-term expertise to assist Takwimu to implement its programmes. To receive this competence and make productive use of it, Takwimu needs to make preparations and to make counterpart staff available for the visits. Because of the lack of staff, or low motivation of management and expert staff, these preparations have sometimes not been made with the result that the expertise has been wasted.

A quote from Catterson and Lindahl sums up the situation:

TAKWIMU is one of the many cases of institutions/projects which were designed in the era of grandiose thinking, but which have to survive in a reality of meagre government resources. At the time of project conceptualisation there was little consideration of the appropriateness of the project support given its resource needs, nor any discussion of the financing of the institution post-aid. This issue has not been the subject of serious consideration until recently, in spite of the last ten years of budget crisis in the government.¹⁴

5.6 Training of Optometrists in Tanzania

For a ten year period during the 1970s and 1980s some Swedish NGOs supported a school for optometrists in Moshi.

The school was established, equipment was provided, and some Swedish teachers were active there. A group of optometrists graduated from the training and were given positions at different hospitals in Tanzania. The support was phased out after less than ten years, and in the 1990s the same process as in the rest of Tanzania has set in. The school is operating on a practically non-existent budget, and the output of trained personnel is minimal. But there are other serious effects as well.

The ultimate objective was of course to improve the access to optometrist services for the population of Tanzania. At the time when the training was started, there were very few (mostly Indian) optometrists in the country. The idea of providing the services

¹² J. Catterson and C. Lindahl: "The Sustainability Enigma". p. 80.

¹³ Ibid. p.81

¹⁴ Ibid. p.82

through private, independent small businesses was not politically correct, and the Ministry of Health decided that the new optometrists were to be employees of the district hospitals under the eye clinics. The fact that most vision correction (90 per cent) is not a health condition was ignored. The trained optometrists were "bonded" to the hospitals, and were prevented from opening their own shops. Since spectacles cost money that the hospitals did not have, very few people could get free spectacles through the hospitals, and the optometrists were chronically under-utilised. They could not keep up their skills – an optometrist is not a professional, but rather an artisan. He needs to work daily with his trade.

The end result of this sad story is that political ideas and medical misconceptions effectively prevented the creation of optometrist businesses in the country, and to this day very few of the trained persons are able to live from their profession. In addition a large part of the Tanzanian population can no longer read for lack of spectacles, as they are simply not available.

Institution building must thus be viewed in a wider perspective than that of "an institution". In this case, the ultimate objective is to improve the reading and working abilities of an entire population by providing spectacles to those who need them. Training is not enough, there must also be a delivery system. In this case, an institution was indeed built, it consisted of the school, the artisans, their skills and the hospital services. But it was the inappropriate institution with the inappropriate customers. It never made a difference to the people who just wanted improved eyesight.¹⁵

One single optometrist with a shop in Mwanza can serve several thousand customers with his skills, but he must be allowed to set up his shop. He must also have the skills to be a small businessman, and there must be importers and wholesalers of the goods he sells. The ideological obstacles for private business have been gone for many years in Tanzania, but the training given was totally inadequate for a private sector delivery system. Therefore there are no African optometrists in Tanzania. That is the long-term effect.

5.7 Department of Roads, Zimbabwe

The Swedish support in the transport sector in Zimbabwe started soon after independence with the overall objective of supporting rural development, through employment creation and improvement of transport facilities and through institutional development. Before independence, most roads were built to serve the interests of the white Rhodesian population, and the Department of Roads was effectively controlled by these interests. Shortly after independence, most of the white engineers and managerial staff resigned from the department, and Sida stepped in to fill the vacuum. In 1986, the Secondary and Feeder Road Development Programme was started with Sweroad as the supporting agency. An important element in this project has been the "transfer of knowledge and technology" in order to build up a local capacity to run the agency. A large number of Zimbabwean staff have been trained, but many of them have left the department after the training, because the skills gained made them attractive to the private sector. As usual in these cases, the government salaries have not kept pace with

¹⁵ The source for this anecdote is Mr. Bo Hesselmark, who worked as an optometrist teacher in Moshi for five years.

inflation, and the institutional capacity has not increased significantly as a result of the training. In the last four years, the inflation rate in Zimbabwe has been extremely high, and the competitive situation of the Department of Roads is worsening.¹⁶

5.8 The Bank of Zambia

In 1987, the Central Bank of Zambia was in difficulties,¹⁷ and there was an urgent need for a complete overhaul of the institution. Earlier, the external auditors had refused to complete the audit of the bank's accounts for 1986, on the grounds that they were incomplete, partly due to several frauds in the bank. The Bank of Zambia (BoZ) was not to deliver unqualified accounts until in 1995.

Since then, the BoZ has gone through a remarkable process of restructuring. In 1989, when the call for help was answered, the BoZ was an organisation without focus, weak in resources and capability, and suffering from inadequate organisational structure, obsolete work methods and poor management. It did not perform well as a Central Bank. Accounts were in arrears, the output of economic information was limited, its supervisory performance was weak, and the foreign exchange control functions were poorly managed. Eight years later, the BoZ is an altogether different organisation, with a clear mission and organisational focus. It is staffed with motivated people and management, and it is fulfilling the role as Central Bank with confidence. The improvements are visible in all areas. Annual reports are produced on time with unqualified audits, the volume and quality of economic information improves continuously, all basic IT systems are in place and functioning, supervision of financial institutions has reached new levels.

During the restructuring the number of employees went down from 1,250 in 1993 to about 600 in 1996. A new organisational structure was put in place. A number of external recruitments were made, and new managers were appointed all around. New salary scales and conditions of employment were worked out. The budget for personnel costs was retained and increased although the staff had been halved. The average personnel cost per person has increased from US\$ 4,000 in 1993 to \$19,000 in 1996. Employment in the BoZ was now very competitive, and the average professional qualifications of the staff had increased enormously.

The successful restructuring of the Bank of Zambia is remarkable in the Zambian context. There are a number of general observations that stand out.

1. **Autonomy.** The BoZ already had legal autonomy as a central bank in the 1985 Bank of Zambia Act. However, the autonomy was circumscribed by the Government in several ways. This changed abruptly with the new Government in 1991. The bank management then took it upon itself to make the necessary changes in the internal organisation. They did not have to inquire the Government for permission.

¹⁶ L. Bergström and M. Witteberg: "Institutional Development in Practice". Sida, 1998.

¹⁷ This is a condensed version of an article by the author published in "Institution Building and Leadership in Africa". Nordic Africa Institute, Uppsala 1998.

2. Ownership. The change process was owned by the Bank of Zambia. There was substantial support and encouragement from the outside - mainly the donors - but the driving forces were employees in the bank.
3. Continuity. All the major donors involved in the support to the BoZ have participated for a long time. Long-term relationships were created between the institutions, and at least in the case of Sida, a very trustful relationship has been built over the years. The driving force within the bank, the Bank Secretary, had been in the bank for many years, having survived a great many Governors. The continuity within the bank matched that of the external parties.
4. Acceptance from the donors that the BoZ took charge of the change process. This is related to the issue of ownership, but it is worth a separate point. In numerous cases donors have been reluctant to hand over the control of a change process to the co-operating partner. There is a contradiction between the call for ownership and the holding back on the control of a project. In this case, it seems that the mutual trust between the competent team in the BoZ and the donors had a positive effect.
5. Personnel. No change process is successful without the suitable people. The Bank Secretary assembled a team of mainly young and well educated people around him. This well motivated group of people made up the "critical mass" necessary to make an impact. A new personnel policy has made it possible to pay competitive salaries to competent people. This facilitated recruitment, and staff turnover is low.

It is difficult to select just one of the above issues as the most important factor explaining the success of this case. They are all important and necessary. One could speculate on the effects of removing them one by one, and try to see if the effects would still remain the same. To some extent, all these conditions have to be fulfilled simultaneously.

6. Discussion

The seven first cases described above all share a similar fate. (The Bank of Zambia case is an exception.) The institutions once created have lost, or are about to lose, their capacity to produce the services for which they were set up. The major reason for the un-building of capacity is without doubt lack of money and resources, but political events, limited visions and lack of understanding of the role of an institution are other contributing factors. However, a fundamental point is the question of salaries. Experience from twenty years of institution building shows how the same stories are repeated. People are trained to fill important positions within an institution. Due to the lack of a proper promotion policy and to the general salary levels within the government sector, the institution cannot keep its qualified staff, and the situation is "back to square one". Governments are very slow in reacting to changes in factor prices. When competition for a certain type of competence drives the salaries upwards, the government institutions will inevitably lose their staff, unless donors step in, thereby ignoring their own rule not to pay direct salaries. This inability of governments to – even in the long run – respond to these basic market forces is difficult to comprehend, but still a fact. A decade of "Civil Service Reform" programmes have apparently had no effect at all on this important element in the governments' behaviour. Perhaps one

What about the success story – the Bank of Zambia? The points listed at the end of the description can give some clues. *Autonomy*, independent control of resources is a key. *Continuity* – it takes a long time to build institutional competence, with or without external support. *Ownership* – the change process was driven by internal needs and by the bank's own people. *Personnel* – with the help of good finances, it was possible to build a team of professionals, well paid and willing to stay. *Concentration* could be a final item on this list. One of the absolutely most important things in the restructuring of the BoZ was the complete removal of all functions that were not core central bank functions. This allowed management on all levels to concentrate on the *output* of the Bank, where earlier much effort was spent on just managing the *inputs*.

7. What Can Be Done?

If the major problem is lack of resources to run all existing institutions, what can then be done to improve the situation? A number of actions have been suggested, different types depending on the type of institution.

1. Privatisation. Complete private ownership. Control through legislation and taxation. This solution is possible only in some specific cases for non-monopoly enterprises, and only in situations where the whole enterprise can be sold in full. Examples: milling companies, transport companies, fisheries, farms, forestries, mines, power companies, retail chains, import and export companies, banks, newspapers, publishing companies, auditing services etc. Privatisation will completely remove the issue of recurrent costs from the government, and it will be entirely up to the individual company to acquire the competence it needs and can afford for its operations. The market for competent personnel will set the prices, and the market will determine the viability of the individual companies.
2. Autonomy – part or full public ownership. Profit-making enterprises, fully self-sustaining financially. Control only through legislation and board membership. For the type of institutions that have well defined products and markets but with some element of natural monopoly – railways, harbours, airports, telecom. Also in this case, the question of resources and compensation is completely in the hands of the institution. It will be isolated from the government with regard to staff policy, and will rely on the market for professional staff.
3. Autonomy – non-profit making institutions. These institutions have some income generating activities, but are mostly budget funded by the government. Financial autonomy will give them control over salaries and conditions. Control through budget, legislation, board membership. Universities, fire control, national roads, infrastructure, higher education are possible candidates for this.
4. Decentralisation. Lower and middle education. Basic health services. Local roads, water and sewage, local public utility transport, local police etc. Full local political, financial and administrative control will give autonomy, and locally available resources will determine the scope of the activities.
5. Remaining central functions. Defence, central government functions, courts, national functions. With increasing decentralisation and privatisation, new central functions

for supervision and control will be needed. Access to knowledge and expertise is increasingly essential in central government and old-fashioned personnel policies must be reviewed in order to also give central government institutions access to the most qualified people with the appropriate skills. This process will not be easy, but it will clearly be facilitated if as many as possible of the previously mentioned functions are given autonomy.

These ideas, in various forms, have been a central ingredient in many reform programmes. It is generally accepted that change is necessary, but the process is essentially a political one, and progress has in many cases been slow. Experience shows that it is effortless to eliminate or even destroy an institution, but extremely difficult to build up a new one or to restructure what has been destroyed.

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