

The Sustainability Enigma

**Aid dependency and the phasing out of projects.
The case of Swedish aid**

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Introduction

Aid dependence has increasingly emerged as an important issue in the debate on development assistance. In this study the authors approach the subject, using Swedish aid to Tanzania as a case and taking empirical material from twelve aid funded projects. Their model contains three variables linked to the issue: the success of a project during the project period, whether or not the project had been phased out and whether this was done in a timely manner, and finally the sustainability of project achievements after the cessation of external aid funding.

The model is based on a conceptual framework which illustrates the interdependence between aid dependency, effectiveness, sustainability and phasing out. Low effectiveness of aid creates aid dependency and vice versa. Aid dependency creates difficulties in phase out; difficulties in phasing out are a cause of aid dependency. Low sustainability is a cause of aid dependency and vice versa. Finally, sustainability problems are a reason for slow or no phase out.

Outline of the study

The study is designed as follows: after an introductory chapter, Tanzania's development and periods of different aid relations are outlined, followed by an overview of the history of Swedish development assistance to Tanzania. Then the methodology for the investigation of the twelve projects supported by Sweden is outlined, followed by a narrative of each of the projects. The narrative focuses on the achievements, the phase out process and sustainability issues.

From this empirical material key issues are identified and discussed. Policies and measures, which represent learning in aid to Tanzania during the 1990s, are reviewed, and it is considered how far these address the issues identified in the previous analysis. Finally the authors summarise the conclusions and suggest some policy guidelines for effective sustainable aid. In an appendix to the study Professor Samuel Wangwe and Dr. William Lyakurwa carry out a brief macro analysis of aid dependency in Tanzania.



Main findings

The main finding in the case material is that project phasing out is complicated by the lack of financial sustainability of the supported institutions. This is not purely the result of Tanzania's overall poor macro-economic environment but is caused by a number of underlying factors, including:

- The level of technical ambition in projects, which became "islands of development"; increasingly isolated from the reality of their environment, as the gap increases between what the donor agency and the Government of Tanzania can afford.
- The lack of finance, organisation and financial skills as a result of the heavy focus on technical skills, while the attention to finance and management issues is weak.
- Government expectations and donor replaceability. In the case of the former, parastatals' and local governments' bargaining position vis-à-vis central government is eroded by the conviction of the central government that donor funds will be found. In the case of the latter, institutions that have been supported by Sweden will seek more aid from other aid agencies, should Sweden withdraw, rather than putting into practise a financially sustainable strategy.
- Perverted incentive structures on both recipient and donor sides, which lead to unsustainable projects, difficult to phase out. One aspect of this phenomenon consists of windfall profits and rent seeking, that can have a dramatic effect on sustainability, as there is no incentive to pursue a less donor-reliant strategy.
- Lack of attention to cost-effectiveness during the aid-funded period. Neither the donor nor the recipient has any sense of what is reasonable to spend in order to achieve certain objectives.
- A micro-macro delinkage in which Sweden changed its policy direction and joined with the forces of structural adjustment at the macro level during the mid 1980s but continued in a "business-as-usual" fashion at the project level for at least another ten years.

The authors also point at some more general factors influencing the sustainability of projects and making phasing out difficult. One is the fallacy of synergy in aid. This means that developing projects in tandem with one another appears to create synergy, but in fact creates an inflexibility, which threatens the sustainability. Another is the stakeholders' vested interest on both sides and the herd mentality in the donor community.

The recommendations of the study cover issues beyond phase out problems and also include issues on aid effectiveness more generally. Examples include: aid must 1) be shifted from a supply driven, disbursement oriented venture towards a demand driven, performance oriented one; 2) be shifted from a primarily government to government undertaking to aid which responds to the whole society; and 3) be focused on becoming a knowledge-based service venture rather than an administrator of aid flows.

Problems of sustainability

On learning about success, sustainability and phase out the study emphasises four points:

- The linkage between project success, sustainability and phase out decision-making has been weak. According to the authors this is mainly the result of two management tendencies within Sida. One is strong ownership of projects by staff responsible for managing specific projects. The other is a highly administrative decision-making process concerning phase out, where the real situation of the project is of less concern.
- The need for the donor agency to be realistic and to fully appreciate its dominant role in the aid web as well as the consequences of this role to achieving favourable outcomes in terms of success, sustainability and phase out.
- The problems of sustainability in Tanzanian projects are primarily a question of financial sustainability rather than technical competence. Swedish aid financed projects tend to be focused on technical matters, while the issue of creating financially sustainable projects tends to be neglected.

- For successful projects, “good” phase out is about making sustainability a prominent goal at every phase. Neither planning of a blue print for phase out from the beginning, nor waiting until the last years of the project are effective strategies to achieve a successful phase out process. Phase out seems less of a problem in projects, which have an inherent capacity to generate revenues. From this the conclusion should not be drawn that such projects constitute more effective aid. Rather, the efficiency in implementation and less problematic phase out should be judged against the achievement of overall Swedish development objectives.

A Tanzanian perspective

The appendix with macro perspectives on the issue of aid dependency from the Tanzanian point of view starts with a brief overview of the development and aid relations from Tanzania's independence up to the end of 1997. During 1980-85 the relationship between the Government of Tanzania and IMF and the World Bank deteriorated, as Tanzania was not prepared to implement the reform programmes of the Fund and the Bank. From 1986 this changed but in the early 1990s the relationship between the Government and most donor agencies deteriorated again. The donors were concerned with what they perceived as fiscal mismanagement, corruption and inadequate attention to democratic processes, while the Government of Tanzania saw the donors as inappropriately intrusive and demanding.

Wangwe and Lyakurwa argue that aid dependency is more an expression of qualitative relationships than quantitative resource gaps, such as the investment-savings gap or the foreign exchange gap. To this extent aid dependency is an expression of a form of behaviour rather than a state of accounts or other quantitative balances. They consider the erosion of local initiatives in addressing development issues one of the issues raising most concern. Linked to this are the distorting effects of Tanzania paying so much attention to conforming aid procedures and meeting aid targets that the necessary grip on the policy making process is eroded. The human and institutional capacities are geared towards meeting numerous aid-induced procedures and conditionalities.

Measures to improve aid relations

The authors suggest a number of measures which should contribute to enhanced aid effectiveness and improved aid relations, e.g. that the donors involve the recipients much more in preparing strategies, policies and project design, that they cease the practise of operating and implementing aid projects/ programmes outside the local structures, and that they consistently include capacity building and increase the autonomy of their local offices. Other issues of importance on the side of the donors are increased transparency and accountability, reduced uncertainty of resource commitments and orderly exits of the external funding.

On its part, the Government of Tanzania has to improve on a number of issues, e.g. to develop and sustain an effective economic management system, improve the civil service, build capacity to formulate realistic budgets and improve budget control. The Tanzanian Government also has to continue the anti-corruption campaign and accord high priority to enhancing local ownership of development policies and programmes.

Technical assistance should be used to complement rather than displace local capacities. It should therefore be integrated into the national framework of administration and make them accountable to local institutions. The government should also improve the mobilisation of domestic resources and enhance local participation.

Ownership and credibility

Finally, the authors identify some more specific challenges to be addressed:

- It is quite possible that the partners in development do not have a common understanding of the concept of ownership. Some donors are likely to insist that Tanzania should take the donor-driven programmes and own them. On the other hand, some Tanzanians are likely to interpret ownership as aid given without any questions being asked.
- Short term pressures, crisis management and pressure to meet sometimes unrealistic deadlines have often worked to the detriment of the long term objectives of ownership, capacity building and sustainability. Here long term objectives should take precedence

over short-term pressures.

- Having eroded confidence and trust in the aid relationship, the restoration of Tanzania's credibility within the donor community may take longer than assumed
- Recognising the importance of restoring credibility must also mean that conditionality and performance criteria will need to be elaborated and agreed upon between the partners. This implies a change from past experience of donor-driven activities.
- A new structure of relationships in the new partnership implies change in operational procedures, restructuring of incentives governing bureaucratic behaviour and being innovative in ways of doing business. These change requirements, like any other transition in society, is likely to meet resistance in some quarters.

Areas for further research

In general, the main contribution of the study is the comprehensive empirical evidence on systemic weaknesses in many aid projects. The examples are taken from Tanzania, but aid practitioners with experience from at least other African countries certainly recognize many of the symptoms. The examples are also limited to aid financed projects or programmes in which project methods are used.

Theoretically some of the distorting effects should be more limited in other form of aid financing, such as general sector support and budget support. In the "post-conditionality" period at the end of the 1990s such forms of development assistance are launched as one of the methods to reduce distortions. However, the empirical evidence for this new trend is so far limited. This is an obvious area for further research.

The macro effects, particularly on governance issues and with empirical material from several countries will be analysed in a future EGDI study.

The Expert Group on Development Issues, EGDI, was established by the Swedish Government in 1995 with the objective of contributing to an increased understanding of development issues in a global context and increasing the effectiveness of development cooperation policies.

The task of the EGDI is to initiate studies that will have the potential to make contributions to development thinking and policy-making. In order to ensure a close relationship with research and policy communities around the world, internationally renowned specialists with extensive networks in their respective field work as members of the Expert Group.

A secretariat assists the group and a number of reference groups have direct contact with the work in progress. An annual budget is determined by the Swedish Government.

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