

Synthesis Report

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Capacity Building, Institutional Crisis and the Issue of Recurrent Costs

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List of acronyms

ECA	UN Economic Commission for Africa
ILO	International Labor Organisation
IMF	International Monetary Fund
NCSO	Namibian Central Statistical Office
NGO	Non Governmental Organisation
SAP	Structural Adjustment Programme
Sida	Swedish International Development Cooperation Agency
SWAp	Sector Wide Approach
SWAP	Sector Wide Approaches Programme
TFNC	Tanzania Food and Nutrition Centre
UNICEF	United Nations Children's Fund
UNDP	UN Development Programme
UNEDIL	Programme for Strengthening Management Training Institutions (sponsored by UNDP, World Bank Institute and ILO)
WBI	World Bank Institute

Executive summary

This study deals with the unsustainability of aid projects with respect to long-term local contributions to financing. A leading principle in development assistance has been that the recipient country should finance its own recurrent budget, such as wages and salaries, whereas the donor undertakes to finance the investment budget and technical assistance. In the 1980s and 1990s the recipient countries have found it increasingly difficult to finance their recurrent budgets on the macro level as well as the projects on the micro level.

At a micro level, the inability to pay and retain skilled personnel and failure to maintain basic infrastructure and equipment are typical indicators of under-financing of recurrent costs. In the long run the quality of the services supplied from the projects tends to deteriorate. For individual donors this poses a specific problem: How should they behave to make sure that the capacity built can be maintained, while at the same time not allowing aid dependence to be perpetuated? For the recipient governments the problem is similar, namely how to construct feasible strategies when it is realised that their own national resources are insufficient to uphold recurrent operations in all project undertakings. At a macro level the recurrent funding issue emerges as a budget deficit, which has implications for the size and orientation of government development spending and on the need for institutional reform of the public sector.

The project-based approach to aid in combination with the principle of cost-sharing are fundamental factors behind the recurrent cost crisis. Insufficient co-ordination of aid projects has made the recipient countries overburdened with projects that they have little capacity to administer. The project approach has also caused confusion with regard to responsibilities. As it has turned out, the donors have often assumed full financial responsibility for the aid projects and with the easing of the recurrent cost constraint the recipient governments have, in effect, been bypassed. At the same time, the governments have been faced with shrinking budgets and a necessity to downsize the public sector in general. This is a particularly serious problem in the context of aid to capacity building and institution building upon which much emphasis has been laid in recent years. The concrete question we address in this study is the following: *Under what circumstances may it be justifiable to continue giving support to a project that is financially unsustainable in the sense that the recipient is unable to finance its recurrent budget?*

If seen as a micro-level problem, the donors will either have to accept full cost responsibility in their aid engagement, knowing that at least in the short run aid dependence will tend to increase, or they will have to withdraw completely when the recipient partner is unable to live up to

expectations, even if the services rendered by the project might cease to exist. This is the strict donor perspective that is concerned principally with the sustainability of each specific project. A macro level approach, on the other hand, takes a broader view and analyses the sustainability of a project in light of its place in the larger system. In the first approach the donors make decisions from case to case on how to handle the recurrent cost issue; in the second approach the costs of a project have to be measured against its overall welfare contributions. The former perspective is the traditional one, it is seen as a donor dilemma and it forces the donors to adopt ad hoc solutions in order to rescue already made investments. The latter perspective focuses on the role of the recipient governments in formulating a strategy that can form a basis for sustainable capacity building and that includes a commitment with respect to long-term funding.

The financial gap in government budgets can be overcome either by an increasing aid flow, for instance by donors taking over full responsibility for recurrent costs, or by an upsurge in government revenue. Before deciding how to handle recurrent costs, the donor would have to assess whether the project has a potential to be revenue generating and eventually self-financing. It is argued that although individual projects might become financially sustainable there is no guarantee that the strain on the government budget will ease unless the project unit is held entirely outside the public sector, i.e. the unit is privatised. Then, on the other hand, it becomes difficult to assess the value of the project in the perspective of institution building in general, i.e. its place in the larger system. If a project provides services that are extremely valuable socially or of great importance in some other respect, the donor might consider taking over all responsibilities. This would guarantee that the capacity built into the project is not foregone. In this way sustainability is maintained, at least in a short-term perspective, although aid dependence increases.

Insufficient administrative capacities on the part of the recipient government are often assumed to be a key reason for unsustainability. However, the financial sustainability at micro level is not necessarily improved if the recipient partner is an NGO. If the development of social services such as education and health depends heavily on aid projects run by NGOs, the question is who will take responsibility for the totality of these systems. What reason is there to believe that governments should be enticed to do so if they are by-passed? With this strategy, time perspectives might even be shortened. What mechanism is there to ensure that long-term perspectives on development policy are maintained when the actors involved can be seen as individual entrepreneurs?

The problem is that the recipients are offered an escape route from making choices of their own. Given the incentive structure with a myriad

of projects available, the recipients can choose to regard all projects as more or less equally valuable, or equally unimportant. Thereby the responsibility for solving the recurrent cost crisis is transferred to the donors. The donors find this extremely unsatisfactory. They find themselves trapped in having to take full funding responsibility for their “own” projects. In addition, the recipient governments have few incentives to take full responsibility for the funding of national development programmes since much aid will be dispersed to development projects without government involvement. Thus, a fundamental change in attitudes is necessary so that the recipient governments are made responsible for the priorities made and the targets set in the aid programmes.

That *low salaries* constitute a major incentive problem is unquestionable. However, if higher salaries are to play a role in capacity building it is important that these salaries are offered in ways that ensure that the staff is retained within the sector, and not in ways that encourage a development of a new privileged class, i.e. to a large extent those working for the donor agencies. To a large degree this is already part of the problem of deficit civil service capacity in Africa today. Donor driven projects hire many qualified people and in a sense these make up a new privileged class. Working as a consultant for a foreign donor gives high status and often an enormous wage differential relative to those who are paid for by local funds, sometimes within the same project. On the other hand, in the civil service at large it appears that corruption has in fact increased with the downsizing of the public sector and the fall in the remuneration to civil servants. There is often a lack of accountability on part of the public sector vis a vis the citizens. A major reason might be that the ordinary citizen contributes little to public sector revenue because of the undeveloped tax system, especially with respect to income tax. A person who does not pay any tax is not likely to be in a position to raise claims on the government. Conversely, a government that finds funding from other sources than taxation (to a large extent from foreign aid) has minimal obligations to deliver services to its citizens.

It is argued in this study that sustainability of aid cannot be analysed solely as a problem of survival of individual projects and thus mainly as a technical issue. In order to overcome the micro-macro dichotomy decisions made by a donor with regard to cessation or continuation of individual projects should, in principle, be placed into the context of the overall development strategy in the recipient country. Assessments of the viability of individual projects should then be made against the background of institution building in a societal context, i.e. the entire developmental context of an aid receiving country.

The problem of insufficient institutional capacity is not only one of lacking administrative capacities, but more so one of *lacking legal authority*

for the regulatory framework, including the civil service. The argument that modern development presupposes efficient institutions rests upon the assumption that there is a difference between personal and impersonal rule, so that human interaction is protected by law and the state is a neutral enforcer of the legal system. The *fundamental difference is the one between personal rule and the rule of law*. Donors should be aware that changing administrative capacities will not automatically bring about development. It has to be made clear what is the anticipated role of a specific intervention in its larger institutional setting. In doing so, the sustainability of an aid involvement has to be analysed as a *long-term undertaking* and the costs involved should be regarded as a *totality*. Such an approach must, however, be based on a broadly based *agreement* between donor and recipient countries, so that a feasible and lasting strategy for institutional system development can be followed.

Although institution building is the catchword of the day many aid activities take the shape of short-term projects in specific fields with concrete goals specified. If sustainability is seen in the larger context of institution building, we should be talking about *the viability of entire systems* rather than attempting to rescue the capacities built in individual projects after aid support has been withdrawn. Of course also systems and larger sector programmes demand proper recurrent cost financing, which has to be budgeted for. Thus, all problems cannot be avoided by replacing project-based aid with a so called Sector Wide Approach. Also in that case there is a risk that responsibility for recurrent funding will be transferred to the donor partner if the recipient partner is unable to meet with expectations.

Three principles ought to apply, however, before methods of cost sharing are decided upon. First, the place of each individual project should be clearly defined to make it possible to identify its role in the larger scheme for institution building. Second, it is imperative that the recipient government is the leading actor, the one that sets the priorities and assumes basic responsibilities. Third, in every case of aid it ought to be a requirement that the recipient government is made accountable to its own constituents. If these principles are abided to it will be far less important that local funds are made available in each individual case to finance recurrent expenditure.

In conclusion, it may be sound to continue giving support to a financially unstable project only when the project in question is part of a larger system, for which the recipient government has a declared commitment and for the implementation of which it can be held accountable to its own citizens. This also means that the time perspective in aid engagements has to be extended and that institutions might be deemed reasonably sustainable even if there is a need for a continued aid flow. If aid can be placed

in a clearly defined developmental context in the recipient country *there is little reason to uphold the principle that aid has to be terminated or minimised in the near future*. All this, however, requires a serious rethinking of the politics of aid in the donor countries, so that aid priorities are not defined by a set of generalised development goals, representing a coalition of special interest in the donor countries themselves, but are guided by the development strategy outlined and priorities made by the aid recipient partner.

1. Introduction

Criticism of aid is a recurrent theme in modern development literature. The concept of aid dependence is frequently used to denote the predicament many developing countries find themselves in, when core functions of government and the delivery of public services cannot be performed without a regular flow of foreign aid funding and expertise.¹ Abundant evidence has been provided to demonstrate that aid might distort incentive structures in the recipient countries and perpetuate rather than eliminate development impeding institutions and archaic forms of governance. Rather than being an answer to the problem of underdevelopment aid is said to have become part of the problem. In the present study we shall deal with the problem of aid dependence from the perspective of how to design development assistance when (1) the development process may not be sustainable without aid, while at the same time (2) aid flows appear to create and encourage incentive structures that are counter-productive in terms of overall development objectives. The analysis focuses on a concrete expression of this dilemma, namely *when the recipients are incapable of meeting recurrent cost requirements in aid projects*. This is a particularly serious problem in aid projects engaged in capacity development or institution building.

Critical literature on aid is voluminous but also rather disparate. On one hand much criticism has been voiced against individual aid projects. This type of criticism, which tends to be rather detailed, commonly appears in project evaluations and focuses mainly on apparent failures in terms of goal attainment of individual aid projects. On the other hand, many critical studies take the form of macro-analyses of the overall contribution of aid (Boone 1994a; Boone 1994b; Bräutigam 2000; Cassen 1986; White 1992a; White 1992b). Such studies tend to provide rather generalised conclusions and offer wholesale policy recommendations concerning aid. This duality in the studies on the contribution of aid is a reflection of the dual and somewhat contradictory facets of aid. In a majority of cases aid is provided in the form of individual projects de-

¹ This is also the definition of aid dependence used by for instance Bräutigam (2000). This is a rather broad definition which focuses on the aspect that in many cases key elements of development cannot be attained without foreign aid of some kind. It does not necessarily imply that aid as such is "bad", but does recognise the problem that little progress might occur in spite of large sums of aid being dispersed. A narrower definition is proposed by Lensink and White (1999) who argue that the term aid dependence should be used to denote cases when development does occur but the development objective could not have been achieved without aid. With this reasoning countries which are not making any progress cannot by definition be taken to be aid dependent regardless of the amounts of aid received. A more common way to denote aid dependence is a state of affairs when provision of aid appears not to make any noticeable positive developmental impact. This is a position held by for instance Ridell and Sobhan (1996).

signed for a specific purpose and with involvement of local participants (organisations and individuals) chosen for the occasion. On the other hand, all these projects are assumed to make critical contributions to social welfare, whether directly by providing public services, or indirectly by helping to establish local capacities for provision of public services. In studies of aid, however, this dual perspective is seldom brought to the fore. In the debate, the merits and shortcomings of project aid and programme support are often voiced and the dilemma of aid is repeatedly expressed as a matter of choice between macro level support (e.g. budget or balance of payment support or sector support²) and aid at micro level (individual projects). The so called micro-macro paradox of aid is therefore also reflected in the very studies of aid.

Although many macro-studies produce new insights and fresh perspectives on the role of aid, they often pass over the core issue, namely to present practical advice on how to *make aid work*. Most developing countries are in one way or another dependent on external assistance and the crux of the matter is to make efficient use of the funds available in ways that promote development. Arguments in favour of complete elimination of aid may seem appealing and convincing in light of the many failures of aid (see e.g. Bauer 1971; Bauer 1984; Hancock 1996). In real life, however, such arguments are more rhetorical than sensible. A complete suspension of aid is not a realistic solution since some kind of transfer of resources from wealthier to poorer regions of the world is bound to take place for many years to come.³ Furthermore, it is not realistic to believe that a sufficient transfer of resources will occur in the form of private capital investments, in particular not in areas where the core issues of development are capacity building in for instance the education and health sectors or institution building, such as strengthening the capacity of the legal system and public administration. Critical evaluations of individual projects, on the other hand, tend to unfold the same evidence time and again, namely that individual aid projects may be generating useful and welfare-enhancing services, but are unsustainable without continued aid and should be terminated because they contribute to increasing aid dependence. However, useful policy recommendations are not easily made from such evaluations, since most of them are devoid of macro perspective.

² Sector Wide Approach (SWAp) is the term used for current international thinking and practice regarding a form of long-term assistance to development at sector level, embracing a sector policy and a sector expenditure programme (Sida 2000b).

³ Redistribution of resources is not only confined to transfers between rich and poor countries. For instance, there is a sizeable transfer of resources from more developed areas to areas in the periphery within the European Union, as well as within individual member states of the Union.

These limitations in the literature on aid dependence form the background to the present study. We shall argue that the problem of aid effectiveness should not primarily be dealt with as a technical matter, i.e. what forms of aid are preferable, but as a question of what role aid might, or might not, play for the development of a country. So, choices made should not be determined by the goal attainment of each case of aid, but by the role aid, whatever its form, is to play in the larger context of development. This is a macro level approach, but one that in no way excludes the possibility of continued project aid. It is also an approach that measures sustainability of individual projects in the context of overall national development. It is, in addition, an approach that strongly proposes that aid should not be oriented towards satisfying developmental goals that are first and foremost formulated in the donor countries and represent values expressed by various interest groups in the developed world. Instead, aid should be arranged to meet needs and requirements formulated in the development strategies set up by the governments of the recipient countries. Most importantly, with respect to goal attainment and sustainability of aid it should be made clear without any reservation that in each case the governments of the recipient countries are made accountable to their own citizens, not to the donors.

2. The problem

This study departs from a specific problem, namely that of the apparent unsustainability of aid projects with respect to long-term local contributions to financing. This is a particularly serious problem in projects, which aim at providing public services or at building national capacities for provision of such services. Public services may refer to administrative capacities in the civil service at all levels of society, but also to for instance education and health services, in which the public sector has traditionally been playing an important role. Aid directed towards capacity building is of particular importance for achieving sustainability in the provision of public services. In recent decades donor organisations have to an increasing degree dispensed funds aimed at various forms of capacity building projects in developing countries. Capacity building is a fundamental notion in development assistance. In the broadest sense of the term it means efforts to help in building various forms of productive capacities that are assumed to become powerful vehicles of development in the recipient countries. Consequently, capacity building is closely related to the notion of self-reliance, or self-help. It is assumed that the building of domestic capacities will lay a basis for self-reliant development when individual skills and organisational capabilities have been accumulated and put to work. Self-reliance is thus a core component in the concept of sustainability. This does not mean that countries should attain self-reliance by means of de-linking from the world economy, as was often proposed in the 1970s (e.g. Amin 1970). Instead, it means that aid granted to support local capacity building should also form a basis for continued development after an aid project or programme has been phased out. Sustainability in the context of aid normally means that the host country should have accumulated the skills necessary and be financially capable to continue not only the provision of public services, but also the capacity building process after aid has been withdrawn. The fact that *ex post* reality seldom matches *ex ante* expectations on this point constitutes a core aspect of aid dependence. In fact, a major finding in most studies or evaluations of aid appears to be that it is precisely the question of long-term capacity building that has been neglected.⁴

⁴ In a large evaluation from 1988 of Nordic aid projects to Africa it was concluded that most projects had been carried out successfully in the short-term perspective. The evaluation was sceptical, however, about the long-term sustainability of all but a few projects. When foreign aid was ended, few or no national capacities remained in the organisations that had been established to provide the services in question. Similar examples are frequently provided in more recent evaluations too. An illuminating exposé of the sustainability issue is provided by Catterson and Lindahl (1999).

Since the early days of development assistance it has been a commonly accepted principle that the recipient country should finance its own recurrent budget (largely wages and salaries), whereas the donor undertakes to finance the investment budget (largely foreign exchange and technical assistance). Although it might be questioned whether this principle has ever been fully adhered to in practice, it is a fact that most donors have been reluctant or unable to abandon the principle and adopt a feasible alternative strategy. The dilemma most donors have been faced with in the 1980s and 1990s is that the recipient countries, particularly in Africa, have found it increasingly difficult to finance their recurrent budgets at macro level as well as on the project level. This has become a manifest and burning illustration to the notion of unsustainability of aid. Stagnant economic growth and political instability have made the tax revenue base shrink, and debt service payments on foreign loans have put heavy pressure on governments to cut down on public expenditure. Structural Adjustment Programmes (SAPs) urging governments to reduce the size of the public sector have further reduced the funds available for local funding of recurrent budgets in aid projects. This has put donors in a quandary. On the one hand, they may support the structural adjustment programmes and the notion that a considerable downsizing of the public sector may be desirable. On the other hand, downsizing means that both the capacity of the remaining staff and the overall efficiency of the organisation have to be greatly enhanced. With shrinking funds this means that donors have to reconsider their priorities and accept that the sustainability of some of their previous engagements might be jeopardised, i. e. that some capacities built will have to be lost if some others are to be rescued.

Prima facie, the options available to donors appear to be obvious. Either they will have to accept full cost responsibility in their aid engagement, knowing that at least in the short run aid dependence will tend to increase, or they will have to withdraw completely when the recipient partner is unable to live up to expectations, even if the services rendered by the project might cease to exist. Policy analyses would then have to concentrate on the foreseeable consequences of the project in question if one of the two options, full commitment or exit, were to be chosen. This is the problem area that has formed the point of departure for the present study. However, it shall be argued that the puzzle is far more intricate. Sustainability of aid cannot be analysed solely as a problem of survival of individual projects and/or as a technical issue. Nor can it be analysed from a narrow donor perspective alone. In order to overcome the micro macro dichotomy every decision made by a donor with regard to cessation or continuation of individual projects should be placed into the context of the overall development strategy and institutional reform process in the

recipient country. The notions of *capacity building* and *institution building* are of particular importance in such assessments.

In concrete terms, the problem of recurrent cost financing in individual projects has to be analysed in the context of the changing role of the state under the pressure of globalisation. This is particularly important in Africa where globalisation has mainly taken the shape of the Structural Adjustment Programmes (SAPs) initiated and led by the International Monetary Fund (IMF) and the World Bank, in which a “rolling back of the state” has been a leading principle. The idea of dismantling the state means reducing the size and scope of public expenditure, but also that the smaller amounts spent will have to be used more efficiently. Efforts will have to be made to support and strengthen capacity building in key sectors. The problem, then, is to decide which these sectors are and what strategic capacity building investments are required. In the final analysis it has to be decided not on which level continued aid is to be given, but also whether it is possible to find feasible and functioning ways to provide development assistance so that the capacities built are sustainable even when an individual aid project may have proven financially unsustainable.

It is in this context that the concept of *institution building*, nowadays so often referred to in development circles, becomes important. Normally what is meant is the need to strengthen the legal and public administrative system in order to improve the efficiency of the public sector, but as we shall demonstrate in this study, it also means that key elements in the reform process will have to be identified so that institution building efforts can also be directed towards activities outside the sphere of public administration. If institution building is used to denote merely administrative reforms in the public sector it will have little bearing on the analysis of individual projects or of the role of aid in development. Therefore, institution building has to do with reforming *entire systems*, such as the educational or health care systems, or systems for regulating the economy. Such changes will have immense bearing on the functioning of organisations and choices made by individuals. They will include inputs towards capacity building in organisations and in individual skills, and involve continued donor engagement in individual projects. However, the sustainability of an individual aid project will have to be analysed in the context of such changes in the overall system. Implications for the recurrent costs crises are that rather than reviewing sustainability solely from the donor’s point of view in terms of project maintenance after funds have been discontinued, an evaluation of the viability of the entire system should form the basis for conclusions about sustainability. Thus, assessments of the viability of individual projects will have to be made against the background of institution building in a societal context, i.e. the

entire *developmental context* of an aid receiving country, including the accountability of the recipient government vis a vis its own citizens.

The recurrent cost issue is therefore not primarily a technical question. It concerns the issue of whether the projects in question can contribute to the building of sustainable systems for development. It means that although the recurrent cost problem is a micro level issue when seen in the context of a specific project, its solution should be analysed in a societal context and from a macro level perspective. But individual projects are also concrete expressions of institution building and capacity building, and the sustainability of project efforts will to some extent have bearing on institutional arrangements on the macro level, i.e. on the entire system. Thus, a focus on the recurrent cost issue on project level as a key to understanding the problems of aid dependence and unsustainability of aid can be a way of bridging the micro-macro gap in studies of the role of foreign aid in developing countries.

Our point of departure is that project-based aid has many merits; there are uncountable aid projects that produce enormously valuable services. The problem is the externalities of aid, i.e. that the total social benefit of the project aid tends to be smaller than the sum of the individual benefits of each project. The projects are too many, too costly and they are financially unsustainable. So, what do we do with all these valuable projects? The concrete question we shall attempt to answer in this study can thus be formulated in the following way: *Under what circumstances may it be justifiable to continue giving support to a project that is financially unsustainable in the sense that the recipient is unable to finance its recurrent budget?*

A few remarks of clarification are in place at this point. First, this study is not a detailed examination of individual cases of project aid but rather an analysis based on secondary sources. The discussion draws upon background studies, in which specific project cases have been analysed. Secondly, the aim is not to provide a guide to practitioners in development assistance how to deal with the issue of recurrent costs in aid projects. Instead the aim is to discuss the issue of recurrent costs, which is basically a micro level concern, in a macro-level context. An attempt is made to lift the discussion from the level of individual project concern to the level of development in general and the role of aid in development in particular. Thus, the discussion concerns policy making, or the politics of aid, and offers little, if any, specific advice to practitioners. Thirdly, the discussion about deficit recurrent financing on project level is normally based on the assumption that the recipient partner is incapable of taking over operational costs. However, when the discussion is elevated to macro level it become more difficult to distinguish incapacity from un-

willingness on the part of the recipient. Therefore, a discussion of policy options with regard to recurrent financing has to take into account the incentives created by the project based approach in combination with the principle of cost sharing. Fourthly, we shall be concerned with aid to low income countries, i.e. very poor countries where aid is necessary for the provision of fundamental public services and where aid involvement can be assumed to be a long-term process. It is in this context that problems associated with cost sharing in project based aid is discussed.

The following text is arranged as follows: In Section 3 the meaning and interrelationship of concepts such as capacity building, institution building and sustainability are discussed. Special emphasis will be given to a distinction between institutions and organisations in order to clarify the different dimensions and layers in society where capacity building efforts may be undertaken. Sustainability is discussed in terms of project viability versus strength of entire systems. The conceptual discussion is followed by a discussion about the recurrent cost issue in Section 4. An attempt is made to trace the origin of the problem and to discuss it in relation to the problem of sustainability. Section 5 is a brief presentation of three previous papers produced within this project: EGD Working Papers 1998:2, Göran Andersson, *The Micro Perspective*; 1998:4, Stephen O'Brien, *A Case Study of IDA projects in Mozambique* and 1999:1, Olof Hesselmark, *Un-building Capacity. Some Cases from Africa*. Reference is also made to other studies of sustainability. In Section 6, the analysis of the recurrent costs aspects of capacity building projects is elaborated. Section 7 summarises the analysis and offers some policy implications.

3. Basic concepts

The issues of capacity building and institutional development play an increasingly important role in the literature on aid to developing countries. Since these concepts to some extent are used here in ways that may be at variance with conventional uses in academic studies of aid, as well as in evaluations of projects, some points of clarification need to be raised.

3.1 Capacity building

"Anybody who is involved in economic development anywhere in the world, but obviously in Africa, knows how critical human and institutional capacity is to the development effort and the chances of success" (Jaycox 1993). These words from a speech by a former World Bank vice-president for Africa can be used to illustrate the focus on institutions and capacity building in modern aid activities. According to Jaycox capacity building is the "missing link in African development" but also one that is "critical to the development effort and the chances of success" (Jaycox 1993). However, the World Bank is but one actor in the field, although, admittedly, a leading one. In fact, for at least a decade almost all development organisations, be they multilateral or bilateral, have subscribed to the same philosophy. UN agencies, notably the UNDP, have been very active in encouraging capacity building as a major issue in attempts to attain sustainable development. In 1991, the UNDP decided upon guidelines for assistance to governments in the formulation and implementation of national capacity building strategies. This decision coincided with UNDP's adoption of the so called programme approach, which emphasises that in each case of development assistance the national development programme should function as the axis for integration and co-ordination of technical assistance and national contributions. Thus, overall responsibility for management of UN operational activities remained with the government and other beneficiaries in the recipient countries. High priority was therefore to be given to the strengthening and sustaining of development management and administrative capacities in the recipient countries (Lisk 1996).

The meaning of capacity building has, however, undergone substantial changes since the early days of development assistance.⁵ In the case of Africa the World Bank's interest in capacity building has since the early 1980s been linked to the administrative and technical capacity needed for

⁵ For a review of the concept of capacity building see e.g. Mentz (1997). The present discussion draws upon that particular source. The views expressed in the present study, however, in some cases deviate substantially from the views held by Mentz.

policy analysis and economic management in the context of Structural Adjustment Programmes. However, Jaycox (1993) advocates an approach to African aid, which gives priority to the development of critical human and institutional capacity. He argues that the reason why the World Bank's lending programme to Africa had not had the desired impact before the early 1990s was that insufficient attention had been given to national capacities. Rather than carrying out technical assistance programmes which not only fail to solve problems but tend to be undermining local capacities in Africa, donors should give direct support to capacity building in the lending programmes, mainly through *human resource development* and the creation of a 'demand for professionalism' in Africa (Jaycox 1993).

In the early 1990s the UNDP, the African Development Bank and the World Bank collaborated to set up the African Capacity Building Foundation, with additional funding from bilateral donors and African governments. The purpose was to support capacity building through training and institution building, particularly in the strengthening of selected research and training centres. At its 1994 annual meeting, the Economic Commission for Africa considered a preliminary agenda for building and utilising critical capacities in Africa. The initiative to focus on capacity building was born out of the realisation that the "missing link and, therefore, the major reason for the generally observed failure in the efforts deployed during the previous two decades to attain accelerated growth and sustainable development has been the lack of systematic action on building and enhancing the critical capacities needed to sustain growth and development" (Economic Commission for Africa, ECA/CM.20.6 and ECA/CM. 21/5). Capacity building was envisaged in its "interrelated and interlocking human, institutional and infrastructural dimensions".

The increased emphasis on capacity building in recent years does in no sense mean, however, that the concept is new in development assistance. Multilateral organisations have for decades been involved in a variety of capacity-building activities at national and regional levels. The World Bank has long given support to national systems of education with a view to building capacities and to improving the productive capabilities of individuals. Bilateral aid has also often been given for purposes of capacity building. For instance, the Swedish International Development Cooperation Agency, Sida, has a long standing involvement in Africa, and capacity building has for more than 20 years been a key component in Swedish aid to Africa. Increasingly, however, Sida has been operating within a broadened concept and framework of capacity building, which has come to include human capacities, organisational development and institutional arrangements. This illustrates the changes that the concept of capacity building has undergone in recent years. In an older view it was

associated with efforts to enhance human capacities and skills through education. In its current meaning, however, the concept of capacity building embodies human capacities, organisational and managerial skills and institutional arrangements. One example is the so called UNEDIL programme, incepted in 1987, for strengthening of management training in Africa, which is undertaken jointly by the ILO, UNDP and the World Bank Institute, WBI, and often cited as a successful initiative in institutional capacity building through promoting networking and professional contacts among African development institutes.

Definitions of capacity building and institution building tend to be rather ambiguous and sometimes confusing and overlapping. An authority in the field (Cohen 1993b) defines capacity building as “public sector capacity building”, which “seeks to strengthen targeted human resources (managerial, professional and technical) in particular institutions and to provide those institutions with the means whereby these resources can be marshalled and sustained effectively to perform planning, policy formulation, and implementation tasks throughout government on any priority topic. This is a narrow definition, but according to Cohen it is “*operational and problem solving oriented*” (Cohen 1993b:26). In common aid jargon capacity building is often equated with institution building. When capacity building is defined as institutional reform or managerial changes in organisations the concept becomes vague and difficult to apply to specific aid contexts. According to Cohen, capacity building ought to be reserved for human resource development and kept analytically separate from institution building. Thus, capacity building has to do with recruiting, organising and training the inherent capacity of civil servants, especially in the managerial, professional and technical fields (Cohen 1993b).

Cohen’s narrow definition is a reaction to the blurred distinction between human, organisational and institutional capacities and in particular to the broadest type of definition that associates capacity building with development efforts in general. W.H. North (1992), who argues that efforts of donors to assist developing countries to achieve “a condition of self-sustaining national growth and progress in human well-being” are in themselves expressions of capacity building ventures, offers one such broad definition. In his sense of the term, capacity building is a broad concept “equated with the totality of human development” (North 1992:6). Conceptually this is a problematic standpoint. As Hildenbrand and Grindle (1994:9) have argued operationalisation of the concept in a meaningful way becomes almost impossible if it is equated with development in general. Instead they define capacity as “the ability to perform appropriate tasks effectively, efficiently and sustainably” (Hildenbrand and Grindle 1994:10).

However, North's definition appears to be more consistent with how the concept is used in development circles. He argues that in recent years capacity building has become an "umbrella" term, which includes institution building and human resource development, both of which are taken to be crucial for a developing country's management of development policies and aid programmes (North 1992:6). This view reflects the fact that capacities are thought to be strengthened on all levels, from government offices to local service providing organisations. It also stresses that capacity building may involve different types of activities. Elliot Berg (1993) elaborates this point by dividing capacity building into three major activities: skill upgrading, procedural improvements and organisational strengthening. Skill upgrading refers to general education, on-the-job training, and professional deepening in crosscutting skills such as accounting, policy analysis and information technology. Organisation strengthening refers to what he calls "institutional development" and procedural improvements refer to general functional changes or system reforms. Berg concludes that capacity building is broader than organisational development, since it includes all types of skill enhancement and procedural reforms that extend beyond the boundaries of a single organisation (Berg 1993:62-63).

Finally, Morgan (1993) defines capacity development (building) as "the ability of individuals, groups, institutions, organisations and societies to identify and meet development challenges over time". In this perspective the concept of capacity building is wide indeed. It may refer to changes in the institutional environment, but also to reforms and training of management as well as to development of human resources. The major importance of Morgan's work is, however, his proposal that effective capacity development requires sustained attention over a long period of time. Thus, capacity building efforts are by definition taken to be *long-term learning processes*. The idea of sustainability is therefore built into the notion of capacity building. Development is a continuous process and therefore efforts to build development enhancing capacities have to be seen as part of a gradual process, where not only skills are newly acquired but also maintained and consolidated as well as developed further. As we shall see this aspect has particular bearing on the issue of sustainability and the handling of the recurrent cost issue.

These considerations are reflected clearly for instance in policy documents on capacity building by Sida. In a recent document it is stated that an overriding goal in Sida's aid involvement should be "to make sustainable development possible and thus make development co-operation superfluous in the long run" and that "knowledge, competence and well functioning organisations and institutions are keys to poverty reduction through social and economic development" (Sida 2000b).

Capacity development is in this context assumed to become a major concern in programmes and projects in which the agency is to be involved. "Our principal method is capacity and institution development /.../ (and) knowledge is our most important resource" (Sida 2000b). The definition of capacity building is a broad one namely "the combined efforts to support the development of knowledge, competence and well functioning organisations and institutions". Thus Sida's involvement in capacity building efforts aims at (1) developing knowledge and competence of individuals and organisations, (2) developing organisations and/or systems of organisations and (3) changing and strengthening institutional frameworks. It is stated that "the combined efforts in all the three areas mentioned above constitute Sida's efforts towards capacity development" (Sida 2000b). In terms of practical aid involvement it seems that focus is to be laid upon "providing more support to basic education with a focus on primary schooling; the development of universities, independent research institutions and networks; the training of government employees; developing the capacity to perform evaluations and analyses; and an IT policy for development co-operation" (Sida 2000b).

This illustrates that capacity building in development assistance refers to a process, in which it is assumed to be possible to (1) identify needs and constraints, (2) set up a plan for targeted intervention and (3) implement the plan in ways that secure that sustainable capabilities are being built. The process usually involves the development of human resources but also organisational and institutional changes. Ideally, it aims at improving existing capabilities and resources and using them efficiently to achieve sustainable economic and social development. A possible paradox or contradiction in aid policy concerning capacity building might be that whereas on the one hand aid is aimed at creating sustainable capacities that in the long run should make aid itself superfluous, it is on the other hand assumed that capacity building is a "life-long process", which might indicate that any aid involvement in capacity building should be assumed to be a long-term engagement on the part of the donors. This paradox becomes apparent in the obvious contradiction between the need for a long-lasting partnership in development between donor and recipient and the idea that aid should be able to create sustainability and self-reliance in terms of domestic capacities and should therefore be terminated before too long. Of course, a long-lasting partnership may not always be built on a transfer of financial resources, but it is somewhat difficult to envisage a situation where a long-term partnership in development is initially built on a financial support (aid) that is terminated after only a few years.

Capacity building is thus a concept used in many contexts. It may refer to development efforts in general, i.e. building of all sorts of produc-

tive capacities. It may also refer to investments in human resources, which may include training in professional skills and management, the aim of which is to enhance productive capacities in specific fields. This may be typical for much of project based assistance. However, capacity building can also relate to measures taken to improve organisational capacity, which is reflected in the way skills are provided, utilised and sustained in the organisations that are chosen as agents of development. Finally, capacity building may concern the institutional structure of the society that sets the framework and shapes the behaviour of organisations and individuals, but which is also influenced by the improvements in human and organisational skills. This brings us to the other key concept: institution building.

3.2 Institution building

During the last decade, institutions and institution building have become catchwords in the social sciences and in development circles. It has become fashionable to contend that differences in economic performance between countries can be best explained by differences in institutional arrangements. In a World Bank report from the mid-1990s it was argued that “the much lamented crisis of capacity building in Africa is more a crisis of institutional capacity (capacity utilisation) than a crisis of technical capacity (availability of skills, methods, systems and technology); this institutional crisis is essentially due to a structural and functional ‘disconnect’ between informal and indigenous institutions built on the region’s history and its culture, and formal institutions mostly transplanted from outside.” (Dia 1996:25). The economic crisis in Africa is linked to weaknesses and instability in the institutional framework for management and public administration in the region.

The New Institutional Economics has provided a framework for many recent donor and non-governmental aid programmes in the 1990s (North 1990). Institutional change is said to “be at the heart of the long-run process of economic development, providing the missing link between development and growth” (Nabli and Nugent 1989:1342). According to Douglass North it is the interaction between the institutional framework and the organisations that are a response to that framework that shapes the evolution of economies (North 1990). A workable definition of institutions can be “rules, norms and customs and their enforcement characteristics, which define rules and obligations in human exchange” (Gunnarsson 1995:75).

Basically, institutions refer to laws, rules and regulation but also norms and customs that shape and facilitate repeated interaction between hu-

man beings as individuals or in groups. In societies or situations where exchange takes place in small communities among peoples, who know each other, most institutional arrangements are informal and basically security enhancing and risk averting. Kinship or patronage are familiar ways to signify such arrangements. When the exchange is more advanced and takes place on larger scales, over longer distances and between strangers, it is necessary that institutional arrangements include written rules and third party enforcement. The difference is that the first arrangement is based on personal interaction, whereas the latter assumes that interaction can also take place on an impersonal basis. The argument that modern development presupposes efficient institutions rests upon the assumption that there is a difference between personal and impersonal rule, so that *human interaction is protected by law and the state is a neutral enforcer of the legal system*. So, the fundamental difference referred to is the one between personal rule and the rule of law. It can be argued that where there are dominant interpersonal relationships, enforcement via national structures and a third party is rendered difficult. In the worst case it may even cause outright rejection of any interference by formal institutions.

However, when this thinking is translated into development assistance the concept of institution is often blurred (for a thorough examination see Moore 1995). Often the term “institutions” is used to denote specific organisations. This is particularly problematic when institution building is associated with the concept of capacity building. Aid is said to help in enhancing the capacity of an institution, by which could be meant for instance a government agency, a university, a hospital or even a NGO. In fact, in a strict sense development assistance is rarely given to institution building at all in such a case, but to individual organisations and agencies performing specific tasks within a larger system. So what is called institution building is often aid to individual projects undertaken by specific organisations. In the operationalisation of the concept of institutions in Swedish development assistance Sida defines institutions as “rules or, more formally, the restrictions which people establish for different forms of co-operation. The institutional framework can be formal and consist of laws and policies. It can also be informal and consist of the norms and values people set up for social interaction in the form of formal policies and laws and/or other informal norms which stipulate limits where the development of individuals and organisations is concerned” (Sida 2000b).

Institution building is, thus, not only, or even fundamentally, about writing and implementing legislation and surely that is not what aid agencies normally engage in. A country’s fundamental institutions are not a catalogue of rules and regulations. Rather, institutions refer to entire *systems* of social arrangement such as the system of government and public administration from central to local levels, the educational system, the

police force, the military, the judicial system, and, not forgetting, the system regulating the economy. Within such institutions various forms of organisations are operating, such as universities, schools, hospitals, courts, police stations, and offices within the public administrative system as well as independent private or voluntary organisations. In effect, in order for aid to developing countries to be called institution building, the actual organisations for support should be placed in a larger context so that the direct support given to the organisation aims at not only strengthening the particular organisation as such, but also at contributing to an improvement of the institutional system at large.

Thus, institutions are not the same as organisations. With a sports metaphor it might be said that institutions are the “rules of the game”, organisations are the “teams” and individuals are the “players”. From this comparison it is easily seen, however, that there is more to institutional change than just a change in the rules. When rules and norms are changed from above, incentives to individual behaviour and organisational formation change as well. On the other hand, if human values and skills can be changed, it will have an important impact on the functioning of the organisations that they are part of. Likewise, if forms of organisation are altered the result might be that the human skills embodied in the organisation are put to work in a more efficient way and that enforcement of rules is facilitated. In the longer perspective, changes from below, in the behaviour of individuals and organisations, will affect the institutional system at large. So, institutional changes may very well be achieved by capacity building efforts aimed at improving human skills and organisational behaviour.

Development assistance to institution building is often indirect via organisational support to their human and material resources and to their management and administrative capacities. When discussing the problem of sustainability and the issue of deficit recurrent financing it is the viability of projects that involve specific organisations we refer to. The fundamental issue, then, is whether this support is placed in a larger context of institution building efforts and whether this institution building process is a fundamental part of a development process that is under way. Any policy recommendation concerning how to deal with the problem of lacking recurrent financing of aid projects would then have to be based on an understanding of these large issues.

3.3 Sustainability

Sustainability has always been a major concern for donor organisations. The economic crisis in Africa during the last decades which has made it extremely difficult for the recipient countries to meet the recurrent costs of aid investments, is perhaps the clearest evidence of the problem of unsustainability; but it is not the only example.

The increasing emphasis on the impact of institutions in explaining political and economic change has indeed led to a change in focus towards efforts to build domestic institutional structures rather than forcing aid recipient governments to fund recurrent costs of individual projects. In this context the concept of sustainability has in fact undergone important changes. Korten (1987) has identified three distinct generations of development assistance strategies, in which sustainability has been given different connotations. The first type of aid is the 'relief and welfare' approach providing disaster or refugee relief directly to a population. In this type, governments and institutions in the recipient countries are generally bypassed. This may improve the diffusion of relief funds in the short run, but has no place in the context of national development policies and sustainability is not a major issue (Korten 1987). The second approach does work toward building community and institutional capacity. According to this approach sustainability is achieved when there is also a continuation of project outputs and benefits (outcomes) after aid funding has been terminated. In this approach institutional development is included in evaluations of project outcomes. In this approach the idea that aid has to be terminated is key to an understanding of sustainability. The third approach focuses on achieving sustainable systems of development defined in terms of "empowerment". This approach aims at developing models for entire *institutional systems*, such as the health care or educational systems at large. Thus, sustainability may be defined in terms of "the capacity of the system to function effectively over time with minimum external input" (La Fond 1995a:12). With this approach aid flows may continue over long periods and sustainability should not by definition be confined to a situation when aid has been completely terminated.

The bottom line of this argument is that if sustainability is seen in the larger context of institution building, we should be talking about *the viability of entire systems* rather than attempting to rescue the capacities built in individual projects after aid support has been withdrawn. However, systems change and, in fact, systemic change is a fundamental element of development. When we talk about institution building we normally refer to a process in which new elements are brought into an older structure and are transforming it. Sustainability may therefore also include the capacity to plan for and manage change. This dimension is, in fact, implied in the notion of capacities to implement Structural Adjust-

ment Programmes. This might both complicate and facilitate the role of the donors. Sida, in its mission statement from 1995, talks about “creating conditions for change” rather than being the agent that initiates change. Furthermore, systems cannot be entirely built as replicates of other systems since new conditions are being created by changes in the external environment. For instance, when the Structural Adjustment Programmes were introduced in Africa they initiated a process of institutional transformation that had never been experienced before. In addition, these fundamental institutional changes were not planned before or even implemented together with the introduction of the programmes, but did actually follow as results of the liberalisation process under the SAPs.

The important thing is to determine what kind of system the aid programme is involved in or is attempting to build, on which level the involvement is taking place, and in what context of change it may play a role. Consequently, when a donor decides about how to deal with the sustainability issue of an individual project, the contribution of the project should be weighted against the national development strategy in general and the ongoing institution building process defined in terms of entire systems and sub-systems. This means also that sustainability in general should be defined in a broader developmental perspective and not merely as a problem encountered by donors. Finally, it means that the time perspective in aid engagements has to be extended and that institutions might be deemed reasonably sustainable even if there is a need for a continued aid flow.

4. The recurrent cost issue

One of the most serious accusations raised against development assistance is that aid tends to initiate and maintain activities that are unsustainable, i.e. the recipient country becomes aid dependent. Financial soundness is undoubtedly one important dimension of sustainability. The dilemma of insufficient financing can be expressed as either a micro problem or as an issue of macro-economic balance. The micro aspect concerns the sustainability of individual aid projects, whereas the macro aspect comes out as a deficit in government budgets and national accounts. Local funding of recurrent costs has a special impact on the effectiveness of capacity building efforts since the recipient country is normally expected to finance the recurrent budget while the donors supply investment funds. If local funds are insufficient to maintain daily operations the recipient country will have difficulties in living up to the obligations and undertakings vis a vis the donor. This lack of funding can appear either as a problem of individual projects, or as a government budget deficit.

In a recent World Bank evaluation inadequate local financing was cited as an important factor in 60 per cent of all World Bank projects that were identified to be unsustainable (Agbonyitor 1998). The deficit supply of local financing normally appears as an inability to finance recurrent costs. Inability to pay and retain skilled personnel, failure to maintain basic infrastructure and equipment are typical indicators of under-financing of recurrent costs. In the longer perspective the quality of the services supplied from the projects tends to deteriorate. At project level the recurrent costs problem is straightforward. Generally, project aid contributes to capacity building through investments in physical assets (buildings, equipment etc.), in organisational and procedural training, and in human resource development through education and training of professional staff. The recipient partner is normally a government organisation. The recipient party is expected to take full responsibility for providing the services that are to be the outcome of the capacity building inputs. This means that after a period of establishment and organisational formation, the recipient is assumed to take over all responsibilities, including the financial duty.

In case after case, however, the same story is told, namely that the local partner in the project has been unable to live up to expectations. In Africa a majority of local organisations have right from the start of the project lacked the financial resources to provide the recurrent funding necessary. Aid dependence thus becomes manifest in the obvious fact that no capacity building of this kind will take place, unless there is a continued flow of foreign aid. Foreign funds are needed not only for physical investments in terms of renewal of infrastructure, but actually for running current operations. The consequence is obvious: if the donor funds are

withdrawn the project will most likely cease to exist immediately, unless funds from other external sources (donors) are supplied. In consequence, all the capacity invested is put at risk. The implications are that project aid requiring local counterpart financing tends to aggravate aid dependence on the project level. For individual donors this poses a specific and intricate problem: How should they behave to make sure that the capacity built up be maintained, while at the same time not allowing for aid dependence to be perpetuated? For the recipient governments the problem is similar, namely how to construct feasible strategies when it is realised that their own national resources are insufficient to uphold recurrent operations in donor supported capacity building projects. It shall be put forward as a main argument in this report that, although these are problems which appear on project (micro) level, *they can seldom be resolved at project level*. All considerations have to be made in a larger context of institution building and development in general. Thus, the macro level effects and options have to be given special attention.

At a macro level the recurrent funding issue emerges as a budget deficit, which has implications for the size and orientation of government development spending and on the need for institutional reform of the public sector so as to make more efficient use of available resources. Moreover, it has implications for the role of aid in general; i.e. to what extent foreign aid can contribute to a self-sustained production process that can provide incomes so that the initial investment is secured.

In the early days of development assistance, foreign aid and development was analysed in terms of a two-gap model (Chenery and Strout 1966). Development was identified as a process of modernisation that should be achieved basically by means of industrialisation. Furthermore, industrialisation was to occur as a big push or great spurt and represent a fundamental break with the past. It was then recognised that huge investments had to be made and that many developing countries suffered from a lack of domestic capital resources required for such investments. The capital deficit appeared as a shortage of foreign currency due to insufficient earnings from trade, and as a lack of domestic savings due to low incomes. External funds such as foreign investments, loans and aid were, therefore, needed to cover the capital deficit. In many newly independent countries there was an outspoken scepticism against foreign direct investments. In addition, private investors were not exactly queuing to invest in the poorest countries, especially not in Africa, while there was a growing supply of donor funds available. It was no surprise, then, that inflows of capital largely took the form of aid. The fundamental role of aid was to provide investment capital that would spur an economic growth that leads to increased earnings and thereby higher savings rates providing new investment capital.

Foreign aid might provide capital to encourage export-oriented production so that foreign currency earnings increase and contribute to a closing of the financial gap. However, much early development theorising about underdevelopment was associated with the poor countries' dependence on foreign trade. So, investments were rather to be made to encourage domestic productive capacities, largely industrial within a strategy of import substitution, with the state acting as the vehicle of growth. In effect, the government became both the producer and the consumer and it did so largely using foreign aid. Foreign aid went to physical investments but had to be matched with local funding of recurrent operations, which appeared as consumption in the government budget. Later on, when it became obvious that the drive towards industrialisation had not automatically led to a noticeable improvement in the average quality of life, much foreign aid was redirected towards provision of public utilities, education, health services, sanitation, housing etc.⁶ The basic needs strategy that came into implementation in the early 1970s was, to a large extent, focused on the mismatch between economic growth and fundamental improvements in the quality of life. Even though much of the developing world actually exceeded the economic growth targets set for this period, the benefits of growth seldom trickled down to the poorer segments of the population (Lewis 1988; Gunnarsson 1996). The World Bank was a leading actor in the early 1970s in a direct attack on poverty that "would not necessarily displace but augment macro development efforts" (World Bank 1974; World Bank 1975). Most donors adopted similar policies.

However, in many cases these 'direct attacks' were confined to individual projects. The idea was that projects would be replicated and thus spearhead change at the national level. Apart from the problems of replication and co-ordination that accompanied this isolated project approach, the weaknesses of local administration were bypassed through special project authorities run by expatriates. The majority of aid programmes utilised capital-intensive programmes but attempted to split costs. Foreign exchange and technical assistance costs were considered the proper domain of international donor and non-governmental organisations, while local, largely recurrent costs were left to national governments. Thus, many aid projects became involved in producing public services as such, and in building capacities for provision of such services,

⁶ Emphasis on industrialisation and import substitution did not rule out support to social sectors. In the case of Sweden aid to social development preceded support to industrial sectors and of course some of the UN organisations such as UNICEF have always had a basically social orientation. Although in the early days dominant development strategies emphasised the need for industrialisation it is also true that in practical development assistance the relief and welfare approach was influential as well.

rather than in activities that would promote economic development and thereby the tax revenue base. As a consequence, the aid recipient countries were overburdened with projects, for which they were expected to assume financial responsibility. Already shaky public finances became extremely vulnerable to economic shocks.

When the economic crisis began to build up in the 1970s the weaknesses of the early development model became apparent. Falling rates of economic growth and the governmental financial collapse necessitated a downsizing of the public engagement and a reduction in public spending. It also was realised that the role of the state had to be reconsidered. A weak link in the old development model was its assumption that the developing countries were in possession of institutions and public administrative capacities conducive to modern development. The economic crisis in sub-Saharan Africa revealed the weakness of modern institutions on the continent and the inefficiency of the public sector in general, not only in financial terms. Rather than being a vehicle of modernisation and a solution to underdevelopment the state had become part of the problem. The analysis behind the Structural Adjustment Programmes held that the government sector since independence had developed into an arena for rent-seeking which consumed too large a part of the national resources. A downsizing of the public sector was therefore necessary.

However, in the 1980s liberalisation itself created conditions for which African institutions were largely unprepared and the economic crisis was probably aggravated by the fact that African institutions had not been set up to meet the forces of change that came with liberalisation. It was only realised after some time that Structural Adjustment Programmes could not only take the form of a dismantling of the state, but that there was an urgent need to improve human skills, administrative capacities and institutional structures in general. Therefore, the concepts of capacity building, institution building and sustainability had to be given new meanings (see e.g. Dia 1996). A strong component in capacity building and institution building efforts is now to rebuild the state, to make the public sector more efficient. Bypassing of the government in aid programmes is a short term method to increase efficiency at the same time as the government budget is no longer burdened by recurrent cost obligations. However, the public sector cannot be avoided or neglected. In the civil service administrative capacities have to be raised and it is likely that the public sector will continue to play a major roll in sectors such as health, education and law enforcement.

Thus, with this emphasis on capacity development and institution building it is crucial that aid inflows are not allowed to create a new gap in the government budgets by acting as a multiplier on government spending. The type of investments made by aid funds as such is a key is-

sue in this respect. It might be argued that aid resources should be used for purposes that actually contribute to activities that are, directly or indirectly, self-perpetuating by contribution to growth and an increase in revenues. Financial sustainability would thereby be secured. But normally financial sustainability cannot be measured by means of cost-benefit analysis on project level. A school or a maternal care unit at a hospital may be underfinanced whereas on macro (national) level it is possible to measure in economic terms the positive impact of education and improved child survival. This emphasises that an analysis of the financial sustainability of an aid project should be made in the context of the overall development strategy of the recipient country. Today, a general consensus has developed among numerous non-governmental and donor organisations that any cost sharing scheme that ignores the larger issue of institutional development is a recipe for disaster. Much remains, however, to be desired in terms of practical implementation of policies based on this consensus.

In the real world the recurrent cost crisis appears as a micro phenomenon, at project level. In fact, the recent focus on capacity building and institutional development that is confined to individual projects may have aggravated the crisis. According to the principle that donor funds should be matched by local financing each investment in physical or social infrastructure generates recurrent funding requirements for the recipient government. Normally investments in social infrastructure, i.e. in activities related to capacity building and institution building demand more recurrent financing than investments in physical infrastructure. Since the social gains from these investments are rather indirect and the effects of the investments may not be immediately noticeable they are not directly revenue enhancing activities while at the same time they may be straining government budgets. So, the increasing focus away from aid project involvement in actual physical capital in favour of support to capacity building and institutional development is likely to have aggravated the budget crisis. A major cause of this problem is the apparent mismatch between the theoretically recognised need to build long-term and lasting capacities in terms of entire systems and the continued practice and dominance of project aid.

5. Background studies

In this section we summarise some basic findings from three background papers. The ambition here is not to use the evidence provided by these studies as a basis for general conclusions or policy recommendations. Rather, the studies are used to raise a few basic questions with regard to the issue of capacity building, institutional crisis and lack of sustainability of project aid in the light of the lack of financial resources to maintain recurrent operations. A number of points raised in the studies will later be returned to in our analysis.

Three background papers were commissioned for the study. Göran Andersson's report covers the experience of two Swedish cases of capacity building projects in Africa with diverging characteristics. Stephen O'Brien analyses two cases of project aid to Mozambique undertaken by the World Bank (IDA) and Olof Hesselmark delves into the issue of sustainability basing himself on short overviews of six cases of capacity building projects in Africa.

Göran Andersson's study of Swedish support to the Tanzania Food and Nutrition Centre, TFNC, and the Namibian Central Statistical Office, NCSO, is a study of two typical, but between themselves distinctly different cases, with differing histories, purposes and characteristics (Andersson 1998). The TFCN was established in 1974. Its role has been to function as a resource centre for education, training and research in matters relating to food and nutrition. The TFCN is a non-commercial parastatal under the Tanzanian Ministry of Health. It was established with large supplies of financial and technical aid from the very beginning and was, in principle, fully dependent on government support to cover recurrent expenditure. In retrospect the TFCN is seen as a successful case of capacity building. A recent evaluation concluded that it was the most advanced centre of its kind in the whole of Africa. Competence has steadily been growing and the services provided have been highly valued. On the other hand, the centre is highly aid dependent. Its operations are unlikely to be sustained unless Swedish financial aid is continued or even extended to cover operational costs.

Andersson raises the question why this aid dependence has been allowed to build up. One answer is that worsening public finances as such have made the original assumption of shared cost responsibility less viable, which has forced Swedish aid authorities to extend their undertaking. A major motive behind Sida's shouldering of larger responsibility is that the TFNC is a highly valued project, and that there is a strong constituency of support within Sida for this particular project. Thus, it is the value of the service provided by the centre that motivates continued support.

The support to the Namibian Central Statistical Office began in 1990. The services provided by Swedish aid were to finance surveys and to assist in the production and publishing of statistics. Other inputs were made to train the local staff in computing techniques and methodological matters. The Namibian side was made responsible for recurrent costs from the start. It is often held up as a successful case of capacity building. The inputs made are said to have contributed decisively to increasing local capacities. On the other hand there is little financial sustainability in the project. The project soon ran into financial difficulties due to the fact that the Namibian side proved unable to live up to its undertaking. Swedish aid has therefore been extended to cover also recurrent expenditure. In this case too the reason appears to be that Sida has a stake in the continuation of the project. The assumption is that the data produced are invaluable for the role the agency intended to play in its co-operation with the Namibian government. In a sense the data produced constituted the most valuable ingredient in the process of institution building.

Stephen O'Brien's working paper on World Bank project aid to Mozambique is a study of system support to the educational and health sectors. In both cases assistance was motivated by the devastating effects on these sectors by the civil warfare during the 1980s (O'Brien 1998). In the health sector the bulk of the aid spent was intended to finance rehabilitation and expansion of hospitals and training institutes and to help with supplies of equipment for maintenance of these activities. The support took the form of a credit approved in 1989 that was to be used before the end of 1994. A renewed credit was approved in 1995 but disbursements did not begin until two years later.

Implementation of the health project was slow. It appears that soon the focus had to be shifted towards financing of recurrent costs, especially towards the diffusion of pharmaceuticals. Part of the project aimed at training of health workers, nurses, nutrition workers etc. However, funds were largely used for buying books, equipment, for hiring of consultants and for training of instructors. In the final assessment of the project it was said that the overall achievements of the project fell short of the original objectives.

The IDA-funded project in the educational sector was launched in 1988. The primary aim of the project was to contribute to the construction and reconstruction of primary schools in Maputo. The credit also funded purchases of books and other equipment and training of school administrators. The project is considered to have been successful in terms of goal attainment although local funding did not entirely live up to expectations. IDA also contributed to the Second Education Project of Mozambique in 1990 with 80 per cent project financing. A key aspect in the project was to help in the reconstruction of the primary schools so as to

assist Mozambique in restoring its educational system to levels prevailing prior to the civil war. High priority was given to teacher training, among which one component was a distance education programme. The contribution of the project is difficult to assess. It is unknown how many actually followed the training course and to what extent their qualifications actually did improve. One problem noticed was fragmentation, i.e. that the programme is run by a number of agencies in isolation from each other and with their own sources of donor funding. Secondly, it is obvious that government funds are inadequate to match the donor funds dispersed. An expansion of the system is therefore untenable since the government cannot be expected to provide the funds to meet the goals of the overall development programme for the educational system. With the exception of salaries, donors still have to continue financing most of the recurrent costs of the system.

Hesselmark's study of capacity building projects in Africa highlights the sustainability issue with a bird's eye view (Hesselmark 1999). A typical aid scenario is described. A priority area receives donor funds for capacity building. Salaries and staff benefits are allowed to increase, the quality of the output improves as well as the capacity of the staff. The external demand for the service produced is therefore increased, which makes sure that additional donors are willing to join the bandwagon. This in turn attracts more qualified personnel. From the recipient's point of view there is no need to take any active part in the project, since government funding would be insufficient to replace donor disbursements. The donor, on the other hand, is willing to go on funding the project because it actually works; it produces the services promised. *The lesson is that good projects that produce the service contracted will tend to increase aid dependence.* On the other hand, if aid funds are withdrawn the service ceases to exist and capacity is lost. This is the real dilemma of aid dependence in the project approach to aid.

One "case" dealt with in Hesselmark's overview is universities in sub-Saharan Africa. Higher education is a key component in modern societies and establishing and developing a national university system is itself a type of institution building in the real sense of the word. In 1960 there were only six African universities, today there are more than 100. Most universities have, to a large extent, replaced expatriate faculty with indigenous staff. At the same time population growth and increased access to education have boosted the social demand for higher education, leading to rising university enrolment. Thus, universities have become mass-based and largely diversified. Another strong tendency is that the autonomy of the universities is being increasingly threatened when the utility and orientation of higher education is put in question under the economic crisis. One major undertaking has been to educate and train pro-

spective employees in public sector management, thus reflecting an increasingly technocratic definition of the role of higher education, a tendency reinforced under the influence of the Structural Adjustment Programmes.

The most negative factor, however, is that most universities operate under severe financial constraints. In many countries, conditions have deteriorated to the point where the need for action is becoming urgent. Enrolments are often increasing faster than the financial capacity allows. Current patterns of higher education expenditure are in principle unsustainable. The model of publicly supported residential universities is financially inefficient. During the 1980s, the capacity of African governments to finance public services fell sharply. Recurrent budget expenditures per student fell by two-thirds not due to efficiency gains through improved management, but as a result of cutbacks in research, staff development, library acquisitions, and maintenance. The most serious effect is on the salaries of teachers. The best-educated staff can always find other outlets for their skills, they may move abroad or they may take up positions in the private sector. In any case all teachers have to supplement their meagre incomes with all kinds of other work (Wohlgemuth 1996). The luckiest among them may be hired as consultants or experts by foreign donor agencies. Thereby their skills may indeed be retained in the national capacity building process but capacity building as such will be increasingly aid dependent whereas locally funded capacities remain weak and unsustainable.

Donors have in various ways attempted to support the university system, for instance by helping to update university mission statements, by inputs aimed at strengthening management, by twinning arrangements with universities in donor countries to bolster particular departments, and by supporting research on policy issues and policy reform. In order to improve sustainability it has been argued that donors should consider contributing to recurrent costs, e.g. for library acquisitions, equipment and building maintenance, and efficiency-enhancing operating expenses (Saint 1992). Thus, the sustainability issue is again directly related to the question of recurrent budgets. Aid to universities is a clear illustration of both the dilemma of unsustainability and the difficulties facing the donors, when making priorities. Should donors undertake to finance recurrent costs and, if so, at which levels and to what functions should the support be given? Should donors give budgetary support to the system of higher education in general, should individual universities or institutes be supported generally or should the aid be selectively dispersed to chosen departments, preferably those engaged in twinning arrangements with donor country universities? Furthermore, should the aid be directed to-

wards strengthening of professional capacities, or is it reasonable that managerial training, i.e. training of administrators is given priority?

Health care systems in developing countries are another case in point. Undoubtedly, improvements in the conditions associated with poverty, poor water and sanitation infrastructure, and lack of basic preventive care have significant impacts on the quality of life in developing countries (Green and Matthias 1997). Accordingly, low-income countries ought to concentrate on basic health improvements (Berman 1995). Public health activities that improve immunisation coverage, halt the spread of venereal disease, and encourage dietary supplements reduce the need for more expensive hospital care later on. Historically, however, aid resources have rather been spent on curative and expensive hospital care, on the construction of hospitals, on medical specialists and sophisticated medical equipment (World Bank 1993). In countries where aid accounts for a large share of total health expenditure the issue of recurrent cost funding is important indeed. International donors as well as local NGOs often need to realise that projects are unsustainable. According to the World Bank, international aid accounted for more than 50 per cent of recurrent spending and 90 per cent of capital expenditures for health care in 1991 in Mozambique (World Bank 1993). Mozambique is of course a special case and the situation might not be as serious in a majority of developing countries. There is little reason, however, to believe that conditions are substantially better in the poorest countries. For instance, a study on Nepal argues that British Save the Children programmes are unsustainable because of Nepal's high dependence on international aid even for recurrent costs (Sepehri and Pettigrew 1996). In addition, foreign aid (mainly through NGOs) appears to have served as a disincentive to the development of the domestic health system itself, which has increased aid dependence even further.

The question is how to build a sustainable health system, given these experiences. Should unsustainable health projects on the micro level be maintained because of the utility of the services produced and if so, under what circumstances and in what institutional context? These are fundamental questions in which micro and macro level aspects are intertwined. Departing from such general questions we shall therefore now proceed to an analysis of specific problems raised in the cases presented. *A main argument forwarded is that sustainability should be analysed in a broad development perspective, rather than as a technical and financial problem encountered by the donors.*

6. Analysis

6.1 Introduction

Sustainable development is in most instances defined as a state of affairs when endogenous mechanisms of society have been built that enable a country to achieve development without a continued large influx of foreign aid. The lack of sustainability of aid projects so often cited, and also documented by the examples referred to here, indicates that aid appears to be an unsuccessful method for attaining sustainable development. Successful cases are rare exceptions. It is also apparent that the demand on the recipients to administer aid projects and to finance recurrent budgets tends to put heavy strain on domestic human and financial resources. Insufficient local funding is indeed a killing factor in many projects. It might be argued that these financial difficulties are factors external to each individual project. Obviously, improved local budget conditions would provide more stable conditions for the aid projects, so that sustainability might be attained. Although this may be correct, sustainability must also be seen in relation to the sources of the financial gap encountered by the recipient governments, whether the gap is externally or internally generated.

Two major factors have been held up as explanations for the financial gap: the Structural Adjustment Programmes and the general economic decline. Critics of the SAPs argue incessantly that the external demands imposed on the governments from the donor community (notably the Bretton Woods institutions) to cut down on public spending, is a major reason behind the disintegration of public services, including those required for local partners to live up to their commitments. There is no doubt that the SAPs have put heavy strain on the government budgets and that the sustainability of many individual projects is, thereby, undermined. Whatever the merits of Structural Adjustment Programmes they have certainly not contributed to a rise in government revenues. However, the general economic decline in sub-Saharan Africa is, of course, a fundamental factor behind the deficit in government budgets. In that sense it may also be argued that the unsustainability of individual projects is caused by external factors. On the other hand, it can just as well be argued that the aggregate growth contribution of aid has been insufficient to counterbalance the growing financial demand on government budgets resulting from the many aid projects. So, via the recurrent budget constraint aid may have contributed to the rise in government spending, i.e. consumption, but far less to income and revenue generating productive activities. Thus, the origins of the financial gap in aid projects cannot be taken to be entirely external to the projects as such.

In broad terms the financial gap in government budgets can be overcome either by an increasing aid flow or by an upsurge in government revenue. In the longer run a balance between government income and spending cannot be sustained without economic growth. This is also the reason why the donor community under the SAPs has changed policy orientation towards growth fostering interventions coupled with a downsizing of public spending.⁷ An underlying assumption is that public investments are to be made more efficient, so that they can contribute to increasing returns. This also means that a smaller public sector ought to become more efficient and more concerned with tasks that are contributing to economic growth, directly or indirectly.

If applied in a consistent manner this reasoning will have implications for the recurrent cost issue at project level in two ways. First, before deciding how to handle recurrent costs, the donor would have to assess whether the project has a potential to be revenue generating and eventually self-financing. Second, the project has to be assessed in the perspective of institution building in general, meaning that every project should be measured against its place in the larger system. Self-financing of individual projects can be achieved in a number of ways. However, if each project unit remains within the public sector sphere, local funding responsibility will always fall back on the government budget, regardless of whether individual projects are self-financing, for instance by selling services to other units. This is a zero-sum game from the point of view of the government budget but may be cost-efficient strategy on project level. If the services offered are not only priced and sold to the public, but also paid for from sources outside the government budget (by the users of the services having to pay fees), the strain on government budgets will indeed lessen, but a fundamental reduction in government spending is only achieved if its budget responsibilities are done away with, i.e. if the unit is privatised and salaries and other recurrent expenditure are excluded from the government sphere. Thus, costs efficiency on project level will not always lead to budget balance on macro level.

A dilemma, which we have already touched upon, is that the increased focus on capacity building and institutional development itself has tended to spur investments in sectors that are not particularly revenue enhancing. All kinds of infrastructural investments are “non-performing” in a short-term perspective, since they can be expected to produce high profits or government revenue only in the long run and mostly indirectly. The

⁷ Again, this is the policy forwarded by the World Bank and the IMF. Other donor organisation, be they multilateral within the UN system or bilateral national aid agencies, may attempt to manoeuvre in ways that increase their freedom of action, but so far an alternative to the strategy and actions of the Bretton Woods institutions remains to be presented.

problem is that investments in social or institutional infrastructure tend to be even less profit or revenue generating in the short run. Although it is increasingly argued that “good governance” and “proper institutions” are necessary conditions for growth as well as poverty reduction the fact remains that investments in such types of capacities have a low rate of return in the shorter run. Investment in capacity building means that resources are to be spent on learning processes and learning is a “life-long process”. It is true that long-term economic and social development cannot be maintained without a regular flow of considerable amounts of investments in learning, but in the short run such investments tend to be more costly than growth contributing. In addition, investments in learning are even more costly than investments in physical infrastructure since they require higher operational expenditure that puts pressure on the recurrent budget while at the same time they contribute little to the current government revenue. Thus, it can be argued that *a focus on capacity building and institutional development in aid engagements is not compatible with a short-term perspective with respect to financing.*

However, all aid projects cannot be assessed merely on the grounds that they contribute to economic growth. Although aid projects in education and health may be welfare enhancing, their contributions to development in general are mainly indirect or long-term. Thus, the value of their individual welfare contribution has to be measured by a combination of micro and macro perspectives. If a donor decides to continue supporting a project by taking over all costs involved, the welfare contribution is secured at micro level. The question is, however, if the sum of these interventions is a net welfare contribution on the aggregate level, i.e. if they contribute to the building of (national) systems.

Thus, there are two ways to analyse this problem. One is the strict donor perspective that is concerned principally with the sustainability of each specific project. The other is to take a broader view and to analyse the sustainability of a project in the light of its place in the larger system. In the first approach the donors make decisions from case to case how to handle the recurrent cost issue; in the second approach the costs of a project have to be measured against its overall welfare contributions. The former perspective is the traditional one, it is seen as a donor dilemma and it forces the donors to adopt *ad hoc* solutions in order to rescue investments already made. The latter perspective focuses on the role of the recipient governments in formulating a strategy that can form a basis for sustainable capacity building and that includes a commitment with respect to long-term funding from both parties. Thus, a systems approach to capacity building requires not only longer time horizons and an inte-

grated approach to aid projects, but also a different system for sharing responsibilities and commitments as well as new modes for making recipient governments accountable to their own constituents.

Structural Adjustment Programmes, with their focus on economic liberalisation and dismantling of the public sector, are implemented on the assumption that services remaining within the public sphere are produced in more cost efficient ways. This, of course, necessitates that the administrative capacities of the public sector are strengthened. Therefore, much of the current debate on capacity building in development assistance revolves around the issue of administrative reform, including reforms in the regulatory framework, in the functioning of organisations and in the training of human skills. In this perspective institution building and capacity building are, however, easily reduced to technical issues as if the important issue was to decide about techniques for intervention and not about the more fundamental role of institutions.

This approach may be questioned on the grounds that institutional arrangements fostering development are more basic and concerned with the fundamental institutions of society, i.e. those institutions that contribute to creating a favourable environment for participatory development by guaranteeing equal rights and opportunities. The concept of *empowerment* can here be given a concrete content in relation to institution building. Fundamental empowering institutional arrangements may be of kinds that make universal education available to all segments and groups of society and to greater numbers of people, and such that guarantee the freedom of participation in a market economy. For example, legislation and other institutional arrangements securing political and economic freedoms may be part of the conditions needed for participation. Other aspects may be legislation that concerns key aspects such as the legitimacy of government and accountability of the bureaucracy. A basic aspect of the institutional strength of the system would include whether the state is organised so as to be held accountable and so that arbitrariness is excluded from the exercise of state power. These are fundamental aspects that can guide aid efforts towards public sector reforms. Decisions about aid, including assessments of costs, sustainability, time frame etc. will have to put great emphasis on these aspects.

6.2 When should aid to “unsustainable” projects be continued?

A donor faced with the bleak fact that a project is unsustainable because local funds are insufficient always has to choose between continuing as before or withdrawing its support. Many projects have been unsustainable because they were far too expensive from the very beginning. The recipient countries often want to achieve too much and too fast and the donors hope to contribute with inputs in critical stages of development. As a result, the donors have had to step in and subsidise recurrent costs at an early stage in the life of the project. At that point it is no longer relevant to discuss financial sustainability since there is no actual cost-sharing. On the other hand, the project is unsustainable in the sense that it is totally donor driven and isolated from the larger system. Under what circumstances is it then justifiable for a donor to go on funding recurrent costs? In his study, Göran Andersson argues that one fundamental aspect that should guide the choice is the *value of the services produced* in the project. If a project provides services that are of high social value or of great importance in some other respect, the donor might consider taking over all responsibilities. This would guarantee that the capacity built in the project is not foregone. In this way sustainability is maintained, at least in a short-term perspective, although, of course, aid dependence increases.

A fundamental question, however, is to decide about *what is a valuable service*; is it the very end product as such, or the more indirect contribution of the service to social welfare in the social context at large? The idea that donors might choose to secure sustainability by means of “bypassing”-arrangements is not new. In a way it has its roots in the “relief and welfare approach” to aid; a project can be continued because the alternative is said to result in a sizeable welfare loss, such as loss of lives. Although the rationale behind such a decision is not always clearly stated, it may be easily motivated to the public in the donor countries, where aid agencies depend on the parliaments for their funding. For example, LaFond quotes an official saying that the U.S. Congress “demands visible and marketable aid programmes whose outputs can be easily justified to the public” (LaFond 1995b:64). There is little reason to believe that this a phenomenon confined solely to the USA. In those circumstances the decision to continue funding a project is taken with strong support from the public opinion in the donor countries and there will be little concern for the issue of financial sustainability on project level, since it is the direct value of the service produced that bears weight.

People working in the field provide other arguments for continued project support of unsustainable projects. If a clearly unsustainable project is continued it is often the result of pressure from those in the field or within the organisation itself, but rarely from the donor country’s

public that knows little of project. That this has been the case with the Tanzanian Food and Nutrition Centre is evident from Göran Andersson's account. To the donor this project is highly prestigious and if deemed unsustainable, valuable capacities are thought to be lost. The question is then what capacity is actually lost, if the project was to be discontinued. One aspect is the possible waste of skills and knowledge accumulated on the donor side. However, deplorable as this may be, it has little to do with the sustainability issue. The micro-macro theorem tells us that although in every project substantial capacities may be accumulated, the net social welfare contribution may not necessarily be positive. It may be that a successful donor-led project actually extracts capacities from other activities that may be equally valuable from a societal point of view. If this is the case, capacities have already been lost when the society at large, or the larger institutional system, is by-passed by the aid project. O'Brien concludes for Mozambique that "control of salary and manpower policies is eroded as donors hire local staff, creating dual salary and incentive structures" (O'Brien 1998:XX). The local skills accumulated remain within the donor sphere, and if one donor drops out others are queuing to recruit the skilled personnel available.

Andersson's example from Tanzania illustrates the case that far too often decisions about what is considered a valuable service are, at least implicitly, taken to be primarily a question of donor choice, whereas one would find it reasonable that it is the governments in the recipient countries that should be setting the priorities. The real problem is that the recipients are offered an escape route from making choices of their own. Instead, given the incentive structure with a myriad of projects available, the recipients can choose to regard all projects as more or less equally valuable. The recipients are thus given an incentive to present "shopping lists" and since there are many competing "traders" around they seldom have to present a feasible and financially sustainable plan of action to the public. Thereby, the responsibility for solving the recurrent cost crisis is transferred to the donors. Many donors find this extremely unsatisfactory since they find themselves trapped in having to take full funding responsibility for what are regarded as their "own" projects. The donors are also *de facto* prevented from adopting an integrated systems approach to aid since the recipients have few incentives to make the priorities necessary for such an approach. On the other hand, why should the recipient governments assume responsibility for projects that they have not initiated and for which funding is available anyway. *Thus, a fundamental change in attitudes is necessary so that it is the recipient governments that are made responsible for the priorities made and the targets set in the aid programmes.*

This means that the principle of local financing of recurrent costs does not have to be adhered to in each and every project. Instead the governments should be urged to set the overall targets and to assume basic funding responsibilities for the systems created. It is only after such targets have been set up and local funding has been guaranteed that donors should decide about the size and form of their aid involvement. In such a scheme the issue is not about whether aid should be project-based or not, but about the place of the project aid in a larger context where also funding responsibilities have been lifted above the project level. The problem is, however, that although this is something that most donors would adhere to in principle little has been done to change the incentive structure in a direction that would encourage such behaviour from the aid recipient governments. The behaviour of the donor community remains a fundamental problem in this respect.

Some services created in aid projects may indeed be useful, but it may be less obvious which are the local capacities accumulated when the project is highly dependent on foreign expertise and consultants. Swedish support to the Namibian Statistical Office may be such a case. The social value of this particular project has to do with its contribution to capacities for development via institution building. Basically, the project aims at contributing to the construction of data sets that are thought of as essential for development policy. It is obviously the donor's view on what is essential for development policy that decides. This is a thinking that goes well with current ideas of institution building, i.e. that development ought to be carried by a faction of experts (technocrats), and that development assistance should be orientated towards creating such human capacities.

There are two problems associated with this approach. First, it assumes that development is primarily an issue of public policy, and that aid should be directed towards creating and consolidating capacities carried by an enlightened technocratic elite. As we argue later, this is a way of reducing the complexity of institution building to an issue of specific technical inputs. Second, there is a danger that the capacities created as well as the services produced become mainly the property of the aid agency. That the Swedish aid agency, Sida, had a stake of its own in supporting Namibia's Central Statistical Office is apparent. As Andersson shows, Sida's interest in supporting surveys and collection of statistical information was associated with the fact that the organisation needed data for planning *its own* aid involvement in Namibia. In this case the value of the project is indeed analysed in the context of overall system building and development. The problem is, however, that it is the donor that has identified the developmental context, not the government of the recipient country. Thus, the concept of project value becomes blurred to

the extent that it is questionable if the value of the service as such should be the guiding principle whether a donor should take responsibility for recurrent costs.

It is easy to agree with Göran Andersson that the value of an aid engagement, whether direct or indirect, ought to be a fundamental guideline for decisions about future priorities, whether aid should be discontinued or not, also when the actual operations are running large deficits. However, the value of an aid project must be assessed in its larger societal and institutional context. For instance, the value of a health project is best assessed against its contribution to the development of the public health care system at large. Likewise, support to a university department should be measured against the contribution that can be made to maintaining, establishing and developing the university system in the recipient country. *Thus, the value of every project has to be measured against the overall development strategy of the recipient country and the feasibility of its implementation including the commitments made by the local governments with regard to funding.* A narrow donor perspective ought not to be the guideline for determining whether a project should be discontinued or not. Some activities are indeed more easily identified as socially valuable. From the point of view of general social welfare it might, at first sight, not be very difficult to choose between a food and nutrition centre and a statistical office. This does not mean that continued support to the former is incontestable or that the latter should not be sustained. If we go beyond the relief and welfare approach their value in the large development context will have to be assessed as well and then the outcome of the choice might be an open question.

Recurrent costs vs total costs

Even if the developmental context is identified, much aid will still take the form of project-based activities. How important is it then to uphold the principle of cost-sharing on project level? Andersson argues that all costs of a project should be considered as a *totality* to be weighted against the social contribution of the project. Focusing on recurrent costs is a technicality that would be of little importance if aid were shifted to sector level or is provided as general budget support. In the case of Mozambique, O'Brien argues that the recurrent cost issue is irrelevant. The country needs a continued inflow of aid both for investments and recurrent expenditure in order to sustain its development in the foreseeable future. O'Brien concludes that "Mozambique is not a good case study for the underlying assumption premise/.../ that there is an approach to recurrent cost funding somewhere between abstinence and total immersion that can lead to an orderly phasing out of donor assistance within a finite project cycle while at the same time assuring sustainability in the sense

that the recipient government can fully absorb the future costs of the formerly donor-funded activities” (O’Brien 1998:20-21).

Thus, obviously, if the value of the end product is the overriding principle, the recurrent cost issue becomes irrelevant, since because of the imbalance between social needs and provisions, aid will have to be continued regardless of costs. The important point is, however, that in this case the focus in the analysis has been lifted above the project level and the value of the services provided by aid is estimated in the context of an entire system. Some kind of cost sharing principle is, however, also bound to be present in an integrated systems approach although the division between investment costs and recurrent operational costs might have become obsolete. In fact, it might be perfectly rational and justifiable for a donor to take full cost responsibility for a project provided that it serves a function in the development of a larger system. The more important would be to ensure that the recipient government is committed to the development of the system even if it does not have domestic access to the necessary funds.

Aid as a long-term process

Göran Andersson argues that the sustainability and costs of an aid project should be analysed in a *long-term perspective*. Capacity building takes time and projects aiming at building local capacities have long gestation periods. In Andersson’s wording the “typical duration of a Sida agreement with a recipient country is around 3 years, never 10 and definitely not 20” (Andersson 1998:33). While many would argue that this is an exaggeration, it pinpoints a tendency to expect that projects will bring noticeable welfare improvements and be economically viable for the recipient within a few years time. A further problem is that aid projects that are planned to be short-term commitments often tend to endure and grow into long-term undertakings (Cattersson and Lindahl 1999). In one sense many projects function as private enterprises, i.e. they are expected to pay off (produce valuable services in an economically sustainable manner) quite shortly after having being launched. Phasing out periods are set early with the intention to put pressure on the recipient government to gradually assume increasing cost responsibility. In most cases this is an unrealistic strategy. If upholding basic capacities in education and health care can only be achieved by means of aid, it makes little sense to put pressure on recipient governments to take over recurrent costs at project level.

The point is, however, that capacities should not only be maintained but also developed, and in order to achieve this the government actually needs to raise larger funds than before. It is a bleak fact that even if each donor adopts a technical recurrent cost approach in their individual

project undertakings, more aid, not less, will be needed to build sustainable systems in for instance health care and education. Graduation from aid is a delusion in many poor countries; especially if the project approach based on cost sharing is the dominant form of aid. The question is, however, who would be willing to assume responsibility for more long-term programmes. The current trend appears to go in the direction of shorter aid programmes, much in line with the belief that long-term aid fosters growth-inhibiting incentives. Surely, it is a bold assumption that institutional efficiency and human and organisation capacities in for instance the health care and educational systems will somehow “trickle down” if only the poor countries follow the doctrine of liberalisation and are exposed to the discipline bestowed by the market forces.

On the other hand institution building is not an uncomplicated matter. Development of entire systems is time consuming and requires not only commitment but also consciousness and some form of planning. The real problem then is to know what the system ought to look like. How can donors know that they are involved in a long-term process of system building unless they are in full command of the process? In addition, how is it possible for donors to commit themselves to undertakings that are to last 25 to 30 years if the end result is unclear and much can go wrong in the process? After all, it is not the donors that should build the systems and perhaps it is more rational for the donors to remain engaged on project level rather than becoming involved on higher levels of decision making.

The Sector Wide Approach (SWAp) can be seen as an attempt to overcome deficient co-ordination of aid projects and to build entire systems (sectors). Often it means that support is given to larger programmes for sector development (such as health care, education, agriculture etc.) rather than to individual projects without co-ordination. One problem with this approach, however, is that the donors may become deeply involved in the policy making process of the recipient countries. In fact, often a strong reason behind sector support is indeed to secure control over the planning and budget processes in the recipient countries, so as to make sure that aid funds are used for intended purposes. The co-operation in sector programmes is normally expressed in terms of a partnership based on cost-sharing on sector level. The principle of cost-sharing is thereby applied on sector level which may make it easier to avoid unprecedented budget deficits. It remains to be seen what happens if the recipient governments are unable to live up to their part in the agreement. Will the donors then take over full cost responsibility or will the sector development programme have to be discontinued? Will there be public opinion support in the donor countries for a continuation of aid under such circumstances? Furthermore, what reason is there to believe

that the recipient governments would be willing to gradually take over funding responsibility if the donors are leading actors and funding is guaranteed for a very long period? This, of course, brings up the issue of accountability, which shall be dealt with below.

Decentralisation as an escape route

Insufficient administrative capacities on the part of the recipient government are often assumed to be a key reason for unsustainability. A strategy often advocated is “by-passing” of the government sector and interaction with the ‘civil society’ via NGOs. We shall deal with the complexity of that issue later. At this point it may be relevant to put a question mark to the assumption as such. If projects are run as individual enterprises with private interests at stake on both donor and recipient sides, it is questionable how much they contribute to the public sector capacity at large, while on the other hand they do contribute to the financial gap in the public sector budget. If projects are undertaken with NGOs as recipient partners the latter problem is avoided, but the problem of lack of co-ordination may be aggravated and the net social contribution made up by the sum of these projects is not necessarily positive. First, the financial sustainability at micro level is not necessarily improved if the recipient partner is a NGO. Second, if the development of social services depends heavily on aid projects run by NGOs, the question is who will take responsibility for the totality of these systems. What reason is there to believe that governments should be enticed to do so if they are by-passed and major parts of the system are run as private enterprises financed by donor funds? In fact, it might even be questioned if there is something that could be called a system under such circumstances. Third, with this strategy, time perspectives might even be shortened. What mechanism is there to ensure that long-term perspectives on development policy are maintained when the actors involved can be seen as individual entrepreneurs? An informed guess would be that in recent years planning horizons have actually been shortened and units of aid intervention become smaller along with an increasing decentralisation and the introduction of new methods for measuring financial accountability. Thus, following from that, individual aid projects may have proven to be more financially sustainable at the same time as their contribution to social welfare might have become less obvious.

Decentralisation and reliance on NGOs is quite understandable in the light of the state’s long record of financial instability, inefficiency and corruption. It is indeed an agreeable thought that aid efficiency might be improved if involvement by a parasitic state can be avoided. However, by avoiding the state the donors resort to informal and personal types of interaction. This may be understandable when the state is devoid of le-

gitimacy, but what guarantee is there that the local partners will be behaving as civil society organisations rather than as representatives of specific group interests, ethnic, religious or others. Thus, there is a risk that decentralisation of aid encourages the creation of a dual society and the rise of an informal sector based on personal forms of exchange. As we shall argue this is not the way modern societies ought to be built.

As said before, decentralisation might lead to more fragmentation. The World Bank projects in Mozambique described by O'Brien are easily identified as being of high social value. Mozambique is in great need of functioning health care and educational systems after the devastating civil war. Large-scale inflows of foreign assistance are needed to form a reasonably solid basic needs level. A problem identified by O'Brien is the lack of co-ordination in the aid efforts, which tends to increase fragmentation of the system at large, in spite of the value of each project. In the education programme training activities were carried out by five different agencies, each with their own programme, "typically in isolation from the others, and with its own sources of donor funding". Thus, co-ordination is not primarily a donor problem, but a problem for the local system. O'Brien concludes that "establishing autonomous project units creates organisational confusion and reduces central government control" (O'Brien 1998:21).

Andersson's time perspective on aid projects is "at least 25 years". If aid is primarily aimed at helping the recipient countries to sustain a long-term process of economic and social development it must be realised that substantial structural changes do not happen overnight. For the poorest countries of the world, many of which are African, it may take a quarter of a century to reach an income level where the middle income countries (e.g. Malaysia and South Africa) are today. Andersson concludes that "development assistance is justified when it supports sound and acceptable policies. If this criterion is fulfilled the minimum time range in which financial dependence and sustainability should be seen is at least 25 years" (Andersson 1998:33). This perspective is somewhat at odds with the view that aid is to be temporary and that a phasing out period should already be indicated in the planning of the project. The latter view holds that there is a correlation between the degree of aid dependence and the length of the project, so that the longer aid funding is provided, the less reluctant the recipient government will be to take over full responsibility (Bräutigam 2000). That this has been the case with the current approach based on project aid and cost sharing is undeniable. On the other hand, Andersson's argument in favour of a long view on aid is the only realistic argument if aid is to be concentrated to capacity building and institutional development which as we have seen are in themselves long-term processes. Again, however, it seems that it is the larger context that is the decisive factor. The question is not whether there should be project

aid or not, or whether the principle of cost sharing ought to be practised. The fundamental factor is that it is the recipient government that has to formulate the context in which aid is to interact, and it is the governments that are in the final instance to be held accountable to their own people. Thus, methods of cost sharing should be developed above the project level provided that they, as Anderson argues, support sound and justifiable policies.

When should aid be terminated? – Lesson from East Asia

The next issue then is whether the principle that aid is to contribute to building of domestic capacities which are to form a basis for self-reliance also means that all aid should be terminated at some point when such capacities are assumed to have become accumulated. In one sense this is probably an unrealistic position. It seems to be based on the notion that redistribution of resources is a non-productive undertaking and should only be employed in extreme cases when there is an urgent need for relief, or on a temporary basis to foster the emergence of productive activities. In the strongest version of this line of thinking, the Public Choice approach, redistribution is seen as a waste of the resources of society. In development it seems that a somewhat milder interpretation prevails, but nevertheless it is a commonly accepted view that aid should be terminated as soon as possible. On national levels and in for instance the European Union it is an accepted principle that resources will have to be transferred from rich to poorer areas. The same idea might very well have to be introduced on a world scale. In fact, many parts of the developing world will have to rely on a transfer of foreign resources for decades to come in order to uphold basic public services. Thus, in that respect sustainability is a question of how much foreign resources are needed to maintain a reasonable level of public service. Yet, in the debate this is taken to be a major problem of aid dependence and a fundamental task is thus to create incentives so that the recipients will strive towards “graduation from aid”.

Taiwan is sometimes held up as a successful case of “graduation” from aid (Jacoby 1967; Haggard 1998; Bräutigam 2000). One frequently presented argument is precisely that the American pressure on the Kuomintang government to agree to a phasing out of all aid fostered a more growth-oriented mentality in Taiwan. The relevance of this model in the poorest developing countries of today is, however, highly questionable for several reasons. Firstly, Taiwan had no alternative whatsoever; it was totally dependent on U.S. aid in the 1950s. There was no international donor community competing for influence in Taiwan. Secondly, U.S. aid to Taiwan was a bilateral arrangement in the truest sense of the word. All aid was provided in large schemes aimed at building and strengthening sys-

tems, such as education, health care or institutions for agricultural development. Thirdly, aid was allocated to key sectors in society and put into a larger scheme of nation building and development. So, the Taiwanese success story is not only one of getting out of aid dependence, but even more so one of making efficient use of aid resources. Fourthly, it was the Taiwanese government that in the final instance was held accountable for the use of the resources received. Taiwan was surely not a democratic society in the 1950s and 1960s, but the government had become committed to the promise to provide development and welfare to the country. There was no way that this vow could be broken without resulting in social unrest. Fifthly, it might be questioned if it was the threat of withdrawal of aid as such that was the cause of graduation from aid. It might just as well be that economic growth and increasing government revenue rendered further aid flows unnecessary. Furthermore, aid flows had not bypassed the government but had been provided to a large degree with the purpose to strengthen the institutional capacities of the state. Finally, the external environment was totally different in the late 1950s. Indeed, Taiwan was encouraged to strengthen its private sector and to develop export industries. However, this was all done with strong government support and there was no ideology of structural adjustment at hand that insisted on the need for a dismantling of the state.

One lesson from Taiwan is that sustainability requires long-term commitments on the part of the donors and recipients, much in the way proposed by Göran Andersson. It also requires a more “holistic” approach to the role of aid in development, and, finally, given that such an approach is chosen, it requires more aid, not less. From this perspective the donors’ concern with aid dependence and recurrent costs is a narrow and static approach. Rather than having a solution to the problem of unsustainability this approach has become part of the problem.

6.3 When institutional inefficiency is the problem

Public sector agencies are operated by people and it is the sum of their capacities that in the end will determine the general performance of a civil service in executing its primary functions. The total capacity is also determined by the way in which individuals working in a specific section, department or ministry interact. In the current literature much of the inefficiency of aid is blamed on the low capacities of institutions in the recipient countries. This is a general phenomenon in developing countries, but examples from Africa are often brought up as particularly devastating. African managers at all levels of responsibility are often criticised for lacking the managerial skills necessary to accomplish administrative functions. This was also an important reason behind the African Ca-

capacity Building Initiative from 1990 and many other capacity building programmes. The alleged low administrative capacity within public sector organisations and agencies is thought to be a major obstacle to effective development policy. There are two dimensions to this argument that deserve further elaboration: the first is the role of low salaries for retaining skilled administrative staff and the second is the role of administrative reform in achieving overall institutional efficiency.

Low salaries

A low-paid and demoralised civil service is, particularly for Africa but also in parts of Asia, thought to be a problem for development efforts in general, but also for the efficiency of aid. In his study, Hesselmark argues that low salaries are a fundamental cause of institutional decay in Africa, in the “un-building of capacities” (Hesselmark 1999:12). With low salaries within the public sector qualified staff cannot be retained and so the quality of the services produced tends to deteriorate. A decade of Civil Service Reform programmes in Africa has had little impact. Hesselmark suggests that a fundamental explanation is that African societies are state-centred. The civil service is thus principally a job-creating device and the people with secure jobs in the government sector make up a strong political force. Thus, it may be more rational for a government to have many low-skilled employees than a few who are highly skilled and competent.

The ‘brain drain’ which is a consequence of the meagre pay and poor career prospects, has undermined the administrative capacity in Africa. It is often argued that civil servants resort to moonlighting to supplement their low income. The implications of this behaviour are that less and less time is spent on their primary responsibilities as civil servants to the detriment of the general standard of performance of the civil service. “It’s demoralised; it’s underpaid, it’s bloated”, Jaycox argues and he goes on to say “the civil service is running often on a kind of informal or private taxation” (Jaycox, 1993).

The message of this statement is clear. The bureaucrats are too many and they are demoralised or even corrupt. One major reason for this being so is the low salaries paid to public employees. Three questions in connection with this issue may deserve some elaboration. First, what has this to do with the idea of a substantial downsizing of the public sector under the SAP? Second, what effects would a substantial rise in salaries and wages have on efficiency? Third, what role can the donors play to ensure that skilled personnel are retained?

That low salaries are a major incentive problem is unquestionable. This has also to do with the size of the workforce. It appears that there is a kind of vicious circle between numbers, salaries and efficiency. When the public sector immediately after independence offered relatively high salaries

and many other benefits to its civil servants, it developed a tendency to become a job creating device just as much as a provider of services. In the long run the public sector therefore became unable to afford more than minimal salaries, especially with shrinking government budgets under the Structural Adjustment Programmes. During some periods high inflation rates enhanced this tendency. With low remuneration to the workforce incentives to increase efficiency are done away with and the sector will not attract people with career ambitions as civil servants. This circle can be broken in two ways. One is to reduce the number of employees so that higher salaries can be offered to key personnel. The problem here is, of course, to make sure that efficient civil servants with personal integrity are retained and recruited. Unfortunately, it does not appear that the downsizing that has actually taken place under the SAPs has had a desired effect in this respect (Olukoshi 1998). All over Africa public sector organisations have been dismantled under the SAPs, but the cases of visible substantial efficiency improvement are rare and the tales of corruption bountiful.

A second method is to offer higher salaries in order to attract the most qualified. Obviously, this has not occurred either, at least not on any larger scale. Of course it is unacceptable when entire systems such as education, health care or the judiciary fall apart because the staff is underpaid. Fundamentally, however, it should be the responsibility of the recipient governments to make sure that such systems remain viable and it is their responsibility to attempt to raise the funds needed to maintain operations.⁸ It is imperative in that perspective that the staff is offered a reasonable salary. Clearly, donors will in many cases have to contribute to the maintenance of these systems and they will thereby, in fact, indirectly continue paying part of the recurrent costs. But this is a minor problem in an integrated systems approach to aid. In fact, in many cases it is something that has to be accepted if the donors are serious about their will to help build institutional capacities.

The question is, however, if higher salaries in general are an applicable method to increase the efficiency of public administration, and whether donors in that case should accept responsibility for retaining

⁸ I am not using the word "ownership" to denote the responsibilities of the aid recipient governments. The reason is simple. Ownership is associated with the concept of property rights and governments have no rights to property *per se*. A government's task is to be responsible for the proper management of the property and to set up institutional arrangements so that the property is protected and made accessible to the citizen. Aid resources transferred to a poor country will be the property of the citizens of this particular country and not the property of the government. However, since aid is generally transferred via the government sector it is imperative that systems of accountability are developed so that the governments are held responsible for the administration and protection of the property.

qualified staff in the civil service. If higher salaries are to play a role in capacity building it is important that these salaries are offered in ways that ensure that the staff is retained within the sector, and not in ways that encourage a development of a new privileged class, i.e. to a large extent those working for the donor agencies. To a large degree this is already part of the problem of deficit civil service capacity in Africa today. The donor driven projects already hire many qualified people and in a sense these make up a new privileged class. Working as a consultant for a foreign donor gives high status and often an enormous wage differential relative to those who are paid for by local funds, sometimes within the same project.

The idea to offer high salaries to the best qualified is well in line with the scheme to create a new elite in the public sector, which could serve as the *avant garde* to enhance overall efficiency and the work ethic, so that that the reform programmes can be carried out. So far, however, it seems that most of the capacities built are technical and professional in nature, which is commendable, but that those capacities tend to be retained within the donor sphere, whereas the local staff remains underpaid and less qualified. So, with reference to the issue of recurrent costs in aid projects the main problem is that the aid projects are draining the system of professional capacities by offering higher salaries. Paying higher salaries at project level will thus not help in building and sustaining the system at large. If that is to be changed the donors must adopt an entirely *new attitude towards institution building*. It appears that professionals are increasingly working outside the public sector, whereas administrative capacities have not been enhanced to any noticeable extent. The familiar attitude that downsizing or dismantling of the state as such will solve the efficiency problem is little more than wishful thinking. The problem persists, as long as donors continue to recruit the best qualified, partly because of the drain of qualified staff as such, and partly through the continued financial pressure on the public sector to fund recurrent costs, which are largely administrative costs. Again, the budget constraint is an obstacle to public sector reform. The problem can be solved by a total privatisation of services, donor driven or not, which would make possible a considerable downsizing of the bureaucracy. However, as a consequence, talk about institution building might be reduced to mere rhetoric. What happens to the larger institutional arrangement such as the health care system, the educational system, the judiciary etc.?

Low salaries appear to be a major factor behind the widespread corruption. René Dumont argued some forty years ago that the bureaucrats in the newly independent nations of Africa were overpaid and that the public sector consumed an unreasonably large share of the available resources (Dumont 1961). The idea of the overdeveloped state was also

one motivation for the attack on the public sector under the Structural Adjustment Programmes. A downsizing of the state would, it was thought, reduce the scope for rent-seeking and pave the way for a less wasteful allocation of resources. But corruption does not appear to have been fundamentally reduced. The connection to low salaries seems clear enough. Dumont's overdeveloped state was a parasitic device for appropriation and redistribution of the national surplus to special interests in society, largely the urban population and employees in the public sector. The state was a revenue maximising organisation that had easy, albeit formally legal, access to sources of indirect taxation via the state monopolies in trade and industry. With the liberalisation of markets and the deregulation of the monopolies the scope for revenue maximisation was drastically reduced and so were the amounts available for redistribution via rent-seeking. It seems now that the old system of taxation and rent-seeking has been replaced by a more informal and personal type of taxation, i.e. bribery.

Low salaries may indeed be a fundamental factor behind this growing extent of extortion within the civil service. The low salaries are due to the lack of financial resources in the public sector. The economic crisis is one factor behind the budget deficit, but another is the defunct tax system. Since there is no encompassing income tax system a very small proportion of the population actually pay income tax. Basically it is the people in the formal sector, i.e. urban residents and public employees that do pay income tax. They are also the groups that do have demands on the civil service, whereas the majority will have few claims on the government. Thus, the deficient tax system turns out not only as a factor behind the shrinking resources in the public sector, but even more so as an explanation for the fact that governments are seldom held accountable to their own citizens. To a considerable extent the reason is that people do not regard themselves as citizens and consequently they do not have to be treated as such by the government. In effect, if donors intervene and take over the responsibility for salaries in the civil service the recipient government will remain exempt from accountability vis a vis its own citizens.

In the final analysis it is not the responsibility of the donors to offer higher salaries to civil servants, not even to the most professional staff members. When the donors attract the best qualified to their own projects they are actually draining the public sector of its best-qualified staff. The solution cannot be to refrain from hiring skilled personnel, nor can it be a sufficient reason for closing down a project. Again, whether donors should contribute to the payment of salaries in the civil service will depend on the place of the engagement in question in the larger context of institution building. It is the priorities set and the commitments made

by the recipient governments that will decide if donors can commit themselves to paying recurrent costs, including salaries during longer periods of time. Any commitment made by a government must be based on a financial obligation and for that local funds should be made available. Attempts to improve the tax system appear to be a major priority in this perspective.

Institution building is not a managerial issue

This brings us to a critique of the ways in which the term institution building is often used in development literature and even more often in aid contexts. With the imposing of structural adjustment programmes on many African countries a considerable downsizing of bureaucracies has taken place (Dia 1993), necessitating an increased emphasis on the capacity building of the civil servants remaining in the service. Such capacity building efforts are wide ranging and involve changes in objectives (values, policies, strategies and interests), efforts (motivation, work ethic, efficiency), capabilities (intelligence, skills, knowledge), resources (human, technological, cultural, financial) and work organisation (planning, designing, mobilising, enforcing). Thus institution building refers to (1) the size, scope and scale of the performance of the total administrative system, (2) the efficiency of the implementation of public policy and (3) the exercise of fairness, reason and serious judgements in public administration. Strengthening of these capacities is then thought to be the key to progress.

There are three major problems with this approach which all have to do with the fact that institutions are seen as the missing link in development and previous development policy. This indicates that institutions are regarded as a factor among other factors such as capital and labour. Basically, institution building means that a country needs more of a certain institutional capacity in order to achieve development or for a development policy to be successful. Thus, institution building is both a necessary requirement for aid and itself a main priority area in development assistance.

The first problem is that institution building tends to be treated as a technical or managerial issue or as a question of administrative styles. It is sometimes argued that the mismatch between Western rules and practices and African norms of behaviour is the major reason for Africa's badly functioning public sector institutions. It is said that with the colonisation of Africa the so called Weberian bureaucratic model was imported and that this model was the one that most African countries inherited at independence, and the model upon which African bureaucracies were built. "In most parts of Africa, traditional administrative organisations were done away with and replaced by bureaucratic organizations styled after

the system in the mother country” (Mutahaba, Baguma and Halfani 1993:6). In one sense this is misleading in a serious way. Max Weber was no organisational guru or management expert. His main concern was with the changing role of institutions when societies are modernising. As society modernises it becomes increasingly secularised. Rationality, reason and knowledge become increasingly important determinants of human behaviour and power is exercised by means of legal authority (rule of law) as opposed to charismatic or traditional authority, which are typical for pre-modern societies. Modernisation also brings modern forms of bureaucracy for exercising legal authority. This bureaucracy is a hierarchical system, where areas of competence and responsibility are clearly defined and where the staff is recruited on the basis of free choice and ranked according to merits and seniority. Furthermore, the position held by a bureaucrat is a full-time job in which he has no private ownership claim, but is subordinated to systematic discipline and control.

In Weber’s thinking this was not a recipe for organisational efficiency or “institution building”, but rather an expression of organisational changes in the modernisation process. Thus, a Weberian model in its true sense has never been fully implemented in any part of the non-developed world. On the other hand, as we have seen, with independence the public sector did grow in an unrestrained manner and when the bureaucracies expanded most African countries developed a disconnected system, in which the forms of modern public administration systems were superimposed upon traditional institutions and the indigenous organisations. The disconnection was a result of a growing mismatch between the overall forces of modernisation and the growth of the public sector. This had roots in the colonial systems. At the time of independence most African countries inherited a hybrid system where modern governance and public administration systems were superimposed on traditional institutions and indigenous systems based mainly on ethnicity (Dia 1993).

The colonial system brought a set of formal institutions to the colonies, but it did little to implement methods of *governance based on legal authority*, which is a fundamental principle in modern western societies (as it was for Weber). The foremost task of colonial rule was to maintain law and order and was little concerned with secularised institutions connected with a civilising process where citizenship is the basis of human interaction (Mentz 1997). The civilising mission of the colonial enterprise was mainly concerned with pacifying the natives for purposes of facilitating exploitation of natural resources (Mutahaba, Baguma and Halfani 1993). Often the colonial apparatus was minimal in size, due to the fact that the colonies were assumed to be self-financing. The administrative system was of a skeletal type, only large enough for the purposes of extracting revenues and ensuring orderly governance. When the African

countries achieved independence, the emphasis largely remained on the control of political and governmental processes. The inherited public administration could then be used for execution of power, but it had little or no tradition of judicial checks and balances. When the public sector began growing at an unprecedented rate, often with donor funding in the background, it continued to be powerful or isolated, repressive and alienating. Patrimonialism, i.e. that human interaction including enforcement of authority is based on personal connections, prevailed and the *rule of law seldom became a dominant feature of the institutional structure*. Instead, monopolies were set up to distribute the resources to special interests.

Thus, it might be argued that although the rise of the modern nation state in Africa was an attempt to establish impersonal rules of exchange, a system based on legal authority remains to be established in most countries. Instead, the modern apparatus of the state “provided the opportunity for individuals with superior coercive power to enforce rules to their advantage, regardless of their effects on efficiency” (North 1989:1320). The most important task confronting the new governments in Africa was to set up administrative systems that could encourage social and economic progress. At the time it was not uncommon to argue that the bureaucracy had to be given a key role in development. The public administration was considered a relatively advanced and modern sphere of society. That the civil service was able to absorb an increasing number of people with university degrees could come as no surprise. The private sector was less attractive; not to speak of the rural economy, the development of which was gladly left to foreign experts and donor agencies (who with few exceptions were not particularly keen either). The absence of balancing forces in the society enabled the bureaucracy to establish itself as a superstructure that was to play the role as the vehicle of economic growth and modernisation. In order to achieve that it would have had to assume the characteristics of Weber’s bureaucratic ideal type; to do things efficiently according to explicit, objective standards rather than to personal or other obligations and loyalties. Obviously, it is this kind of bureaucracy that is in short supply in Africa and the one that is the target for the present ambition to encourage institution building in Africa.

Thus, the problem of insufficient institutional capacity is not only one of lacking administrative capacities, but more so one of *lacking legal authority for the regulatory framework including the civil service*. Patrimonialism and personal rule prevail and are allowed to permeate the civil service from within, making it both inefficient and an arena for rent-seeking behaviour and outright corruption. Thus, if institution building is to be a major field for development assistance it cannot be treated only as an administrative issue. The first principle in institution building is to make

sure that the rule of law applies. The rule of law is a fundamental principle for guaranteeing impersonal exchange and legal authority. Any institution building project that looks the other way and neglects this aspect might just as well be withdrawn instantaneously. There is no way that a modern civil service can be built on pre-modern principles. A key element in institution building is the *eradication of patrimonialism*, as is has been in all other successful cases of modernisation.

The current approach to institutional and administrative reform in developing countries is, however, to a large extent inspired by Public Choice theory, which seeks to downsize government administration and import market principles into the operations of government. In this perspective a goal-oriented approach and a customer orientation replace the Weberian focus on rules and legality. This so called New Public Management model seeks to increase efficiency by making public servants accountable to clients and service users. External and internal market competition shall discipline governments to set up principles for monitoring the work performance of middle and lower level civil servants. This goes well with the SAP-strategy for Africa, which seeks to downsize government and make the public sector more efficient and customer oriented. In addition, parts of the activities undertaken can be marketised, i.e. priced and sold to the public which might contribute to a solution to the financial crisis of many units. The problem is of course that although this kind of administrative model might be more cost efficient and even self-financing it also encourages a short-term perspective on public service. Who is going to take responsibility for long-term investments and who is held accountable if a service unit is closed after having proven unprofitable? Another problem is that without a functioning legal authority as a basis this model opens up new opportunities for rent-seeking and other forms of clientelism (Self 1993; Walsh 1995). As we have suggested above there is now more corruption in many African society after the downsizing of the civil service. This is an aspect that ought to be considered when donor agencies engage in civil service reforms and institution building.

Institution building by means of human capacity building

Institutional development has to proceed with the overall modernisation of society and be based on the principle of rule of law. However, for agencies that are seldom, or never, engaged in writing or implementing legislation, the task is often to attempt institutional changes from below by training of human resources. It is thought that training programmes directed towards special groups of employees will lead to a transmission not only of skills, but also of those value systems and norms of behaviour that are consistent with modern public administration such as integrity,

expediency, swiftness and continuity. It is a common belief that aid can contribute to the formation of a stratum of highly skilled and progress-minded public servants, particularly in higher positions. One important task is to ensure that key officials in the public administration are insulated from the influence of politics or vested interests, so that corruption can be avoided. Here the argument goes that recruiting and training of persons of integrity and professional competence is essential, and it is those people that should be given tenured positions and higher salaries.

Indeed, it is on this personal level that patrimonialism plays a decisive role, and it is in this practical application that institution building is spoken of in the context of aid and development policy. It is easily observed that patrimonialism has a distinctive influence on the work ethic in the civil service. The idea that the reform programmes could be led by an elite consisting of technocrats insulated from pressures of kinship and politics borrows a great deal of inspiration from the so called East Asian miracle, in which an insulated competent bureaucracy is thought to have played a leading role. There is little doubt that a new bureaucratic competence can be built from below and that this may have a decisive impact on the long-term efficiency of institutional systems at large. However, the thought as such is by no means new. In fact, the early modernisation theory was implemented more or less on the same assumption and there is no obvious difference in its modern application, except the fact that current interventions are made in a process of downsizing of the public sector, while in the period after independence it took place in a context of growing public sector employment. A possible difference is that today the elite, supported by foreign donors, might become more isolated from other sections of the civil service. As such they may indeed be less influenced by various forms of pressure; on the other hand they also become more donor dependent. Relatively alienated from their own societies they may, unless protected by the donor community, become easy victims in political conflicts. In any case one might ask whom they are to be held accountable to. One might question whether this dominant role of technocrats as the carriers of modernisation and institution building could be sustained without long-term donor commitments. Another question is how this strategy can be combined without aid becoming even more of a "by-passing" type. The relevance of concepts such as "partnership in development" and "ownership" of capacities built may thereby be seriously doubted.

The example from East Asia is correct and interesting in one respect, namely that many technocrats were trained and educated in industrial countries, where they adopted many of the values associated with modern economic thought. However, these technocrats were given key positions because the political system supported and encouraged their

dominant position. The bureaucracy in general was disciplined by the political system and it was largely political forces that drove the modernisation of East Asia. Thus, the modernising bureaucracy and the process of institution building are just as much expressions of social changes as the cause of modernisation. In Africa the political side of modernisation has, in fact, been even more devastating than its economic side. In many countries constitutions have been revised to give the military excessive power over the legislature, the bureaucracy and the judiciary (Dia 1993). Military coups and civil wars have not made institution building easier. In some countries the civil administration has been largely destroyed. In general the political situation in Africa has not been conducive to the growth and sustenance of human or institutional capacity. The concepts of accountability and legitimacy of the system of government in general appear particularly important in this respect and neither of them can be solved as technical issues.

Again, the practical solution for donors might be to support the creation of professional skills in the public sector. This does not solve the aid dependence enigma, but it may be a feasible strategy if carried out over longer periods and in a consistent manner attempting to build entire systems.

Institutions as a factor of change

This leads to the bigger issue of the role of institutions in development and the role that can be played by aid in building development-supporting institutions. This is perhaps the most serious objection against current aid engagements in institution building projects. The problem here is that institutions are treated as a set of *factors* among other production factors, which is shown by their association with the concept of capacity building. The key assumption is that efficient institutions are prerequisites for economic development. This, however, is an almost nonsensical statement. The bleak fact is that we do not actually know what constitutes efficient institutions. It is not difficult to find examples of development-impeding institutions; in fact, many such institutions have been alluded to in this study. However, to identify concrete institutional arrangements that will contribute to development is an entirely different thing. Institutional change is a process that coincides with social, economic and political changes in society. Thus, what appear to be preconditions for development are just as much expressions of the very process of development.

This does not mean that donors should not engage in attempts to strengthen institutions. They should, but they must be equally aware that changing administrative capacities will not automatically bring about development. Institutional development must be seen in its proper

societal setting and it is important that donors analyse their own interventions in such a perspective. Today, many individual projects are called institution-building efforts, while in effect they remain isolated interventions in small geographical areas, or are concerned with specific technical tasks within the public sector sphere and sometimes in co-operation with private companies. If, instead, institution building is analysed as interventions in the larger context of entire systems, the concept of institutions can be concretised from case to case. It has to be made clear what is the anticipated role of a specific intervention in its larger institutional setting. In doing so, the sustainability of an aid involvement has to be analysed as a *long-term undertaking* and the *costs* involved should be regarded as a *totality*. Such an approach must, however, be based on a broadly based *agreement* between donor and recipient countries, so that a consistent strategy for institutional system development can be followed. It is also imperative that the recipient governments are held accountable, not to the donors in the first place but to their own citizens, who are the proper “owners” of the aid funds transferred.

The major force determining current development trends in Africa is that of the Structural Adjustment Programmes. The underlying idea behind the SAPs is liberalisation and decentralisation of the decision making in practically all walks of life, but in the economic sphere in particular. Institution building in this perspective means minimising the state, while at the same giving strong executive powers to a technocratic elite. One of the forgotten aspects of the SAPs is the creation of market supporting institutions. Under the SAPs development is assumed to gradually become more market-led. However, more than any other economic system the market economy is based on participation by individuals and independent organisations. The system is assumed to be growing from below, but in order to build a sustainable market economy on a national level supportive interventions have to be made from above. The neo-liberal scheme to rely on a minimal state with dirigiste powers is an ambiguous and unconcerned attitude towards institution building. In fact, it assumes away all the important issues, namely those related to the question of how to create and integrate markets. Nor can total reliance on NGOs and local community organisations be the only alternative. Self-reliant, sustainable development cannot be achieved merely by replacing all government-led centrally administered development programmes by local community-led programmes. Local community groups cannot build economic or social infrastructures or provide services on a larger scale. We have already mentioned the need for public sector involvement in services such as health care and education, but the market also needs a supportive and regulatory framework to enable participation. Of par-

ticular importance in institution building is the *empowerment* of those who are assumed to become the actors in the growth of the market economy: the people.

Thus, central government will always have to play an important role in co-ordinating and implementing economic management and development programmes on a national scale. If donors wish to play a role in a process of institution building that involves participation they ought to concentrate on interventions in processes of the building of entire systems, be it the system of higher education, the health care system or the market economy. Basic institutions such as consistent and predictable application of laws and administrative regulations, equality before the law and transparency in public policy are fundamental aspects. However, on whatever level in the system the donors choose to intervene, they should make sure that their contribution might help in producing a critical mass of professional people equipped with the necessary skills.

7. Concluding remarks and policy implications

The point of departure for this study was the apparent externalities of project based aid, i.e. that the total social benefit of project aid tends to be smaller than the sum of the individual benefits of each project. The question was raised about what to do with all the “valuable” projects when the observable fact is that they are too many, too costly and financially unstable. The concrete question raised was: *Under what circumstances may it be justifiable to continue giving support to a project that is financially unsustainable in the sense that the recipient is unable to finance its recurrent budget?* The aim of the study was not to put together a practitioner’s manual which could be used as a guide in analyses of each and every project. Instead the aim was to discuss the issue of recurrent costs, which is basically a micro level concern, in a macro-level context. An attempt was made to lift the discussion from the level of individual project concern to the level of development in general.

A major conclusion from the discussion in this study is that the principle of cost sharing has done more harm than good in the context of project aid. The current focus on recurrent costs is a narrow perspective, which is defined in the context of project-based aid. It has not given proper incentives to the recipients to assume fundamental responsibility for funding and in combination with the project approach it has perpetuated aid dependence. Instead, all costs – capital as well as recurrent – should be taken into account when planning aid financed activities.

Instead of reviewing sustainability from the donor’s viewpoint of project maintenance after funds are discontinued, a systems approach ought to be adopted to assess the viability of the system as a whole, rather than as the sum of its individual projects. *With an integrated systems approach the principle of cost sharing in each individual project case can be abandoned.* Any assessment of sustainability should be made in terms of the capacity of the system to function effectively over time with a minimum of aid.

It is true that most aid agencies have adopted strategies that aim at strengthening of institutional capacity in a sustainable fashion. Still, after project funding has ended, most donors appear to be trapped in a discussion of the sustainability of each project rather than focusing on the project’s contribution to sustainable systems development. Reforms in the breakdown between capital and recurrent costs as well as in the orientation towards institution building efforts have all comprised attempts to resolve the problem of unsustainability. Without an integrated systems approach, however, the prospects of success remain uncertain.

Although institution building is the catchword of the day, many aid activities take the shape of short-term projects in specific fields with

concrete goals specified. Lack of donor co-ordination is one factor behind the continuation of this enigma. *It is important to work towards aid co-ordination among donors.* The reason is not primarily to put pressure on the recipient countries and to control enforcement of projects. More important is to make sure that similar principles are applied to sector support and the handling of cost responsibilities.

All aid involvement in capacity building should be long-term engagements based on mutual agreements and commitments made by donors as well as recipients. Sharing of responsibilities should be based on long-term agreements where the donor might assume cost responsibility for a programme for a long period given that its role in the longer run and in the context of systems is specified. The view that fixed termination dates should be set may be challenged. It is perhaps more important to guarantee a long-term involvement of considerable size provided that it can be demonstrated that the involvement serves the purpose of producing valuable services in a larger developmental context.

A fundamental problem is that aid policies are largely aimed for consumption in the home markets of the donor countries. Partnership, ownership etc. are words often used in aid diplomacy, but in the final analysis the donor agency is responsible before and dependent on the decision taken in home country parliament. In the parliamentary debate aid is often a cherished theme, but the goals for development assistance set up by the parliaments are seldom reflections of an analysis of what are the key elements in development and the role that public policy and aid can play in fostering such elements. The goals set are much more a reflection of the issues in vogue in the political debate in the donor country itself. Thus, a more comprehensive attitude to aid aimed at system building in a developing country is impeded by the fact that *interest groups, political and others, on the donor side demand that the specific goals they have identified be somehow represented in the aid programmes.* On the recipient side, interest groups of a similar type have learned "the rules of the game" and they tend to act in ways that protect what has been attained rather than foster new forms of development co-operation.

All aid involvement should be based on the overall development strategy defined by the recipient country. It is not the governments of the donor countries that should set the priorities for development and interest groups on the donor side (be they political parties, trade unions, women's organisations, organisations for protection of the environment, or private companies) should not be allowed to exert a decisive influence over the formulation of aid policies. Instead it is recipient governments that should assume basic financial responsibility, including to set up mechanisms for local funding. Strengthening of the tax system would improve the financial standing of the government at the same time as it would make the

governments more accountable to its citizens by forcing them to “deliver”. If donors take over full financial responsibility the governments will remain insulated from their societies.

Institution building engagements should be guided by principles of cost efficiency but it is important that such efforts are combined with measures to strengthen the institutional and social accountability of the systems built. This means that in principle *aid should not be given to countries where governments are not held accountable to their citizens and where the rule of law is not adhered to*. Individual projects to civil society organisations in such countries may be commendable but in those cases the recurrent cost issue is irrelevant since normally the donor will be willing to take responsibility for all costs already from the beginning.

However, project aid will not cease to be important. In thousands of cases the problem of deficient local funds to finance recurrent expenditure is likely to endure. There will always be projects and in many cases they will almost by definition remain unsustainable as individual undertakings. The question is then if “there is an approach to recurrent cost funding somewhere between abstinence and total immersion that can lead to an orderly phasing out of donor assistance within a finite project funding cycle while at the same time assuring sustainability in the sense that the recipient government can fully absorb the future recurrent costs of the formerly donor-funded activities” (O’Brien 1998:20-21). The answer given in this study is that normally there is no such solution available. *Ad hoc* solutions may not be recommendable as a guiding principle, but the fact remains that a flexible attitude will always have to be employed. In that sense it is the value of the service produced by the development cooperation that is to be the guiding principle for any decision taken.

Three principles ought to apply, however, before methods of cost sharing are decided upon. First, the place of each individual project should be clearly defined to make it possible to identify its role in the larger scheme for institution building. Second, it is imperative that the recipient government is the leading actor, the one that sets the priorities and assumes basic responsibilities. Third, in every case of aid it ought to be a requirement that the recipient government is made accountable to its own constituents. If these principles are abided it will be far less important that local funds are made available in each individual case to finance recurrent expenditure.

In the long run, donor agencies ought to give more support to the strengthening of national systems such as education, health care, the judiciary etc., i.e. activities that are normally grouped under the heading *sector wide approach*. It is the support of entire systems or sectors that ought

to be the priority of development assistance, given that the governments in the recipient countries set the targets, commit themselves to long-term funding engagement and are made accountable to their local constituencies. In a recent policy document produced by Sida on capacity building and institutional development it is stated that “what has been lacking is a greater focus *on systems and a systems approach*” and that “the need of project-related education and research can often be better met within the framework of the formal system” (Sida 2000b). It is further said that projects can be successful and economically sound when the initiative comes from the partner country, when the project is in line with other ongoing work, when there is local “ownership”, and when the aid involvement is based on something that already exists in the local system. It is important to analyse the knowledge and capacity which already exist in relation to the planned contribution by aid as well as the knowledge and capacity which can be developed through interventions and contributions to the formal system. “The latter issue has often been neglected with the result that far too many resources have been invested in so called project-related training when a reinforcement of the formal education system would have been more effective” (Sida 2000b).

This is a very general statement that points in the direction of an increasing emphasis on broad sector support as opposed to both project aid and general budget support. The development of sector programme support as a form of co-operation and condition for support may be an important step towards a coherent approach to strengthening of national systems, especially if the initiative comes from the recipient country. At the same time the problem of deficient recurrent funding becomes irrelevant. However, in order to become more than rhetoric or wishful thinking the sector programme approach ought to follow the three principles stated above.

In sum, it may be sound to continue giving support to a financially unstable project only when the project in question is part of a larger system, for which the recipient government has a declared commitment and for the implementation of which it can be held accountable to its own citizens. Other unsustainable projects ought to be terminated, except in cases of downright emergencies or when clearly identifiable civil society organisations may be in need of support, often in opposition to the government. In case the recipient government is unable to assume basic cost responsibility for the larger system, aid funds should only be provided at sector level, in principle never to individual projects. Finally, if an integrated long-term approach towards capacity building and institutional development is applied, and if aid can be placed in a clearly defined developmental context in the recipient country there is little reason to

uphold the principle that aid has to be terminated or minimised in the near future. In fact, under such circumstances the validity of the entire notion of aid dependence might be questioned. It might even be rational to increase the amounts of aid dispersed. Before such a state of affairs is reached, however, much remains to be done on the part of the donor countries in terms of rethinking the politics of aid.

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