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MANAGING INSTITUTION-BUILDING:

**An Action-Oriented Model Based On
The Provincial Development Program
In Indonesia**

by

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PREFACE

This paper was originally written in April 1979 as Chapter III of a comprehensive report to the Ministry of Home Affairs, Government of Indonesia, and to USAID, Jakarta. The author was a member of a three-person team assessing the Provincial Development Program (PDP) in Aceh and Central Java. Professor Amrah Muslimin was team leader and Dr. Mochtar Buchori was the third team member. The author's assignment was to develop a model for managing, monitoring and evaluating the institution-building impact of PDP.

This independent version of the essay was formulated under AID Contract DSAN-C-0065, "Organization and Administration of Integrated Rural Development," as part of the work leading to a state-of-the-art review. Since PDP is an IRD project, and since institution-building is an overt objective of many IRD efforts, it was decided to make this report available to DAI/RTI staff and other interested parties.

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BACKGROUND

There are many difficulties which must be overcome in the battle against rural poverty. One of those which has been consistently identified throughout Africa, Asia and Latin America is the weakness of subnational government organizations. This weakness has been broken down into six clusters of contributory factors. They are:

1. Poor tax collection systems;
2. Dependence on central governments for revenues;
3. Lack of effective revenue-sharing mechanisms;
4. Dependence on the central government for approval of operating and expenditure decisions;
5. Poorly trained local officials; and
6. Staffing through political appointment.¹

Thus, any serious effort at self-sustaining rural development will eventually require that attention be given to the local manifestations of these factors.

The first phase of the Provincial Area Development Program (PDP-I) focuses directly on the provision of development benefits to poor villagers in rural areas. Additionally, as part

¹ See Dennis A. Rondinelli and Kenneth Ruddle, *Urbanization and Rural Development: A Spatial Policy for Equitable Growth* (N.Y.: Praeger Publishers, 1978) p. 126.

of its "institution-building" objective, this program focuses on items four and five in the list above. Thus it directly addresses some of the major constraints to local institutional capability.

This chapter is an attempt to articulate more clearly the rationale for, and the dimensions of, the PDP institution-building objective.

The Rationale for Development Projects

Development projects are responses to problems. Such problems define situations where human well-being does not meet acceptable levels. For example, infant mortality rates may be extremely high or farmer income may be so low that it does not meet basic needs. The ultimate reason for a development project is to raise the level of welfare to an acceptable standard.

Once a welfare deficiency has been identified, it is then necessary to identify behavior which blocks welfare improvements. For example, lack of sanitary practices or improper feeding may contribute to infant mortality, while primitive cultivation practices may lower farmer income. Of course, the link between behavior and welfare is usually complex and many actors may be involved. Nevertheless, each set of actors provides a potential target group for a project. Sometimes the target group will be those whose welfare is at stake (such as the farmers); in other cases it will be someone else (such as the mothers of infants).

After significant behavior of relevant target groups has been identified, the next step is to specify what goods or services could be provided to help those people change their behavior. For example, training in improved cultivation practices (a service) and the provision of fertilizer (a good) might help farmers grow more rice.

Once a set of appropriate goods and services is chosen, the required magnitude, timing and means of delivering them can then be used as a basis for budgeting resources to implement the proposed project.

The sequence of project objectives, then, is the opposite of the order used to derive a project design from a welfare deficiency. During implementation, the first objective is to apply resources and the second objective is to deliver goods and services to target groups. This is expected to induce new behavior patterns which, in turn, should contribute to improved welfare.

What actually happens, however, is often quite different. For example, funds for training may be budgeted, but sub-line-item preauditing regulations combined with the illness of a person whose signature is required on the requisition forms, may delay the training until after the planting season is over. Thus, budgeting resources is *necessary*, but it is *not sufficient* to produce goods and services.

In addition, farmers may receive training but not use the new practices. Furthermore, even if the farmers do use the new methods, changes in rice prices could lead to less income instead of more. Thus, delivering services does not guarantee behavior change and behavior change does not automatically produce better welfare; other conditions are also necessary for the achievement of each objective to lead to the next.

This logic is pictured in Figure 3-1. The sequence of objectives (or the rationale) contained in the logic of a development project and the need for favorable conditions to link the objectives are thus clearly shown.

Although this discussion (and Figure 3-1) is very general, it is a useful background for examining the logic of PDP.

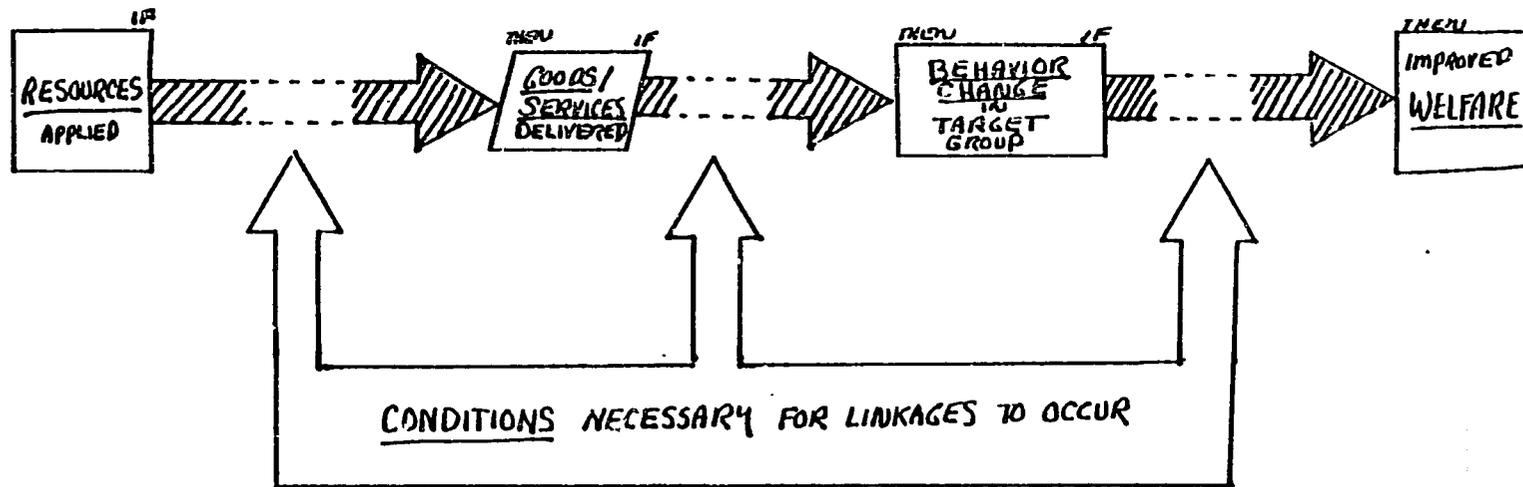
The PDP Focus

PDP contains the same logic and sequential objectives noted above: first, resources are provided; those resources are then used to deliver goods and services to target groups; the recipients of goods and services are expected to do things they were not doing before; and finally, this new behavior is expected to improve the welfare of the rural poor.

However, PDP has a dual focus which complicates this simple scheme. On the one hand, PDP is designed to fund small-scale quick-impact subproject activities which contribute directly to raising the income of poor villagers in the Project area, while

FIGURE 3-1

THE SEQUENCE OF PROJECT OBJECTIVES AND LINKAGES



on the other hand, PDP is expected to strengthen the ability of provincial agencies to prepare and undertake integrated area-based strategies for poverty-focused rural development.² This suggests that PDP has two distinct and very different target groups -- rural villagers and civil servants.

This fact presents an immediate management problem. If two separate clientele groups are served by the same organizational unit, then the level of conflict and confusion is raised and the manager's job is made more difficult. The most common, and most successful, way to handle this problem is to assign the responsibility for each target group to different subunits. For example, one agricultural extension team could focus on services to rubber estates whereas a second team could concentrate on smallholder rubber schemes. This allows each group to concentrate on the particular needs of its clientele and it lowers conflicting demands on the strategy, time and limited resources of each unit. In other words, an effective response to this problem is specialization by target group.

However, PDP has characteristics which further complicate the management situation. First, the technical assistance team is so small in each location that dividing clientele responsibility along the lines of civil servant versus villager is not appropriate. Second, the time frame for impact is very different

² For details see the USAID Project Paper for PDP.

in the two target groups: institution-building is a long-term enterprise whereas the rural poor subproject activities stress quick impact on beneficiary income. Consequently, the psychological rewards resulting from direct technical assistance to subprojects are likely to be far more preferable to consultant teams than the frustration attached to slowly developing organizational capability. When this is combined with the third characteristic -- short staff assignments of two to three years -- the result is a built-in bias against the institution-building focus.

To counteract this bias it is necessary to clearly articulate what is meant by "institution-building." Unfortunately, the PDP project documentation does not contain an operationally useful articulation. This chapter of the formative evaluation report is thus a first step toward providing, and collaboratively developing, a statement of PDP's institution-building strategy.

A Preface to Institution-Building in PDP

Both central governments and international donor agencies have limited resources. In order to get the most impact from the application of these resources, selection of project focus and project area is required. One aspect of selection which determines investment level is the magnitude of the problem being tackled. Another aspect is "absorptive capacity." That is, if the area cannot absorb the new resources, they will simply "spill over" and be wasted -- they will not contribute to reducing the problem.

One dimension of absorptive capacity is the ability to spend money quickly. This is so because if a provincial budget is increased tenfold but the money just sits in the treasury account it will not contribute to rural development.

Using this example, we can see that there are three alternative ways to deal with absorptive capacity. The first is to accept the present situation as a constraint and not overtax present capacity. For example, keeping added resources to a low percentage of present expenditures or making the new expenditures routine fixed costs (such as salaries) rather than non-routine variable costs (such as funding multiple sporadic subproject activities) or providing only one-time disbursements (such as the initial capitalization for a cooperative revolving credit fund) are all ways of adjusting to limited spending capacity.

The second way to deal with low capacity is to raise it -- to employ more treasurers, paymasters, bookkeepers, auditors, etc., and to develop less cumbersome procedures for turning money into rural development activities. Training both new and existing personnel in the streamlined procedures is also an aspect of capacity building.

The third way to development absorptive capacity is to create a mixed strategy which simultaneously, or sequentially, uses elements of both of the previous approaches.

Although PDP appears to have a simultaneous mixed strategy, the emphasis on institution-building implies a high priority for the second approach.

However, PDP's objectives are not limited to increasing personnel, vehicles or money spending ability. PDP is an experiment in building a self-sustaining capacity for integrated poverty-focused rural development activity at sub-national levels of government. Institution-building in this context is more complex than just raising the *stock* of administrative resources -- it is also concerned with creating new relationships and *behavior* patterns between government levels and within civil servant target groups. Furthermore, it is this new behavior by civil servants which is expected to deliver higher levels and new mixes or types of services to rural villagers. After all, it is the improvement in villager welfare that justifies the expenditures to change administrative behavior.

The dual focus of PDP and the two aspects of institution-building (administrative stock and administrative behavior) are summarized in Figure 3-2. This diagram also notes the sequential and dependent nature of the relationship between the two PDP target groups.

With this background in the logic of development project intervention and the focus of PDP we are now prepared to conceptualize institution-building.

INSTITUTION-BUILDING

The greater the distance between a decisionmaker and a problem the more difficult it is to prescribe an appropriate solution. Distance can be both geographic and substantive. For example, national government leaders are often far removed from the rural poor in physical, psychological and economic terms. Consequently, some form of decisionmaking authority must be vested in local-level bodies and the nature of this authority will affect the rate, direction and form of rural development.

PDP can be seen as an experimental attempt to discover a more appropriate approach to provincial decisionmaking by building the BAPPEDA's³ capacity to plan an integrated package of activities targeted on poor rural villagers. However, an over-emphasis on "planning" rather than "doing" can also create distance: "The stronger the relationship of planning to implementation, the more likely plans are to be relevant and realistic."⁴ Thus, the effort to improve decisions and behavior cannot be separated from the attempt to determine what behavior is appropriate.

³ BAPPEDA is the provincial planning body.

⁴ Rondinelli and Ruddle, op cit p. 121. Also see Dennis A. Rondinelli, "Designing International Development Projects for Implementation" in George Honadle and Rudi Klauss (eds.) *International Development Administration Implementation Analysis for Development Projects* (New York: Praeger Publishers, 1979).

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This section will elaborate on the perspectives presented in the previous section and present a general behavioral framework for viewing institution-building. First, some terms will be defined and then those terms will be used to help develop the framework.

Definitions

Since discussions of fuzzy concepts such as "institution-building" tend to reflect that fuzziness, there is an early need for the definition of key words. Ten words are defined below.

- An *organization* is a system of interacting people and roles.
- An *institution* is an organization which is populated by people who did not witness the origin or creation of the organization.
- *Institution-building* is the conscious application of external resources, over a limited time period, to increase administrative capability.
- *Administrative capability* is estimated on the basis of both administrative stock and administrative behavior and it suggests the probability (high, medium, low) that an organization can perform a particular task up to a specific standard.
- *Administrative stock* is a static inventory of resources (human, material, etc.) controlled or used by an organization.
- *Administrative behavior* is what organization members are doing that results in goods and services being delivered during a given period of time.
- *Targeted administrative behavior* refers to the consciously determined behavioral objectives of institution-building efforts.
- *Behavioral outcome* is that administrative behavior which results from a combination of institution-building efforts and environmental dynamics whether that behavior is targeted or not.

- *Institutionalization* has occurred when external resources have been withdrawn and when behavioral outcome has been adopted by persons who were not part of the original target group for institution-building activity.
- *Institutional Progress* is institutionalization which supports self-sustaining improvements in the welfare of rural villagers.

These ten key words can be combined with the figures and discussions presented earlier to develop a practical framework for viewing the role of "institution-building" in the implementation of PDP.⁵

⁵ This is an original formulation. However, some of these terms follow precedents while others deviate significantly from previous usages. This definition of "organization" can be found in James B. March (ed.) *A Handbook of Organization* (Chicago: Rand McNally, 1965). This definition of "institution" is based on Peter Berger and Thomas Luckmann: *The Social Construction of Reality* (New York: Anchor/Doubleday, 1967). The use of "institution-building" follows common usage except for the emphasis on administrative capability rather than the perpetuation of an organizational form. "Behavioral outcome" is based on the recognition that unintended results are sometimes more important than intended ones. For a good statement of this, see Albert O. Hirschman, "The Centrality of Side Effects" in his *Development Projects Observed* (Washington, The Brookings Institution, 1967). The use of "institutionalization" is original but it is also the logical result of accepting the definitions of "institution," "institution-building," and "behavioral outcome." The use of the term "institutional progress" is in direct contrast with what the institution-building literature calls success -- the longevity of an organizational form. In traditional terms, then, perpetuating an organizational arrangement which exploits rural villagers is success. Given the Foreign Assistance Act of 1973, this definition is inadequate. For the traditional view see James W. Eaton (ed.) *Institution Building and Development* (Beverly Hills: Sage Publications, 1972). For a critique, see George Honadle "Implementation Analysis: The Case for an Early Dose of Realism in Development Administration" in Honadle and Klauss, op cit.

BEHAVIOR, PROGRESS AND PDP

PDP is an attempt to raise the level of *administrative stock* (absorptive capacity) of selected provinces. One measure of success would thus be higher levels of future central government investment in PDP-related activities and successful absorption of this investment. However, this absorption must be measured not only by spending, but also by service delivery on the part of government staff. This is *administrative behavior*.

For the goal of PDP to be met, this *behavioral outcome* must be consistent with *institutional progress*. However, measuring goal achievement cannot occur until well after project assistance has been withdrawn. Thus the more immediate objective must be *targeted administrative behavior*.

Targeted administrative behavior should therefore be a primary focus of technical assistance. For example, in the PDP context, one behavioral target would be developing and using operational criteria for selecting subprojects aimed directly at the rural poor. To do this, however, it is first necessary to be able to identify the rural poor.

Although this seems simple and obvious, it is not. In fact, it is just this difficulty which has inspired the joke about identifying an appropriate local definition of a "small"

(as opposed to a "large" or wealthy) farmer. The joke is: "What is a small farmer? Answer: Anyone under five feet tall with a hoe in his hand!"

The problem of raising the ability to identify target groups must be attacked directly.⁶ In fact, this is being done by PDP staff in Central Java, where an inventory of situationally-appropriate "prosperity indicators" has been developed.⁷ Both the use of these indicators in project selection procedures and the further expansion of the list by civil servants would suggest the achievement of one type of *targeted administrative behavior*. Furthermore, there is a direct logical relationship between this activity and *institutional progress*. Thus it is an appropriate PDP focus.

However, achieving *targeted administrative behavior* is not as easy as it seems. Our previous discussion noted how one objective may be necessary but not sufficient for achieving the next objective in the sequence. Other conditions must also be fulfilled. (See Figure 3-1).

⁶ For suggested dimensions of target group definition, see George Honadle and Marcus Ingle, "Project Management for Rural Equality" EAID/TA/RDA, November 1976.

⁷ See Ann Soetoro "Prosperity Indicators For Java," PDP, March 1979.

For example, establishing a set of prosperity indicators does not automatically lead to their use. If supervisors discourage staff from using these indicators and instead reward them for using other criteria (such as friendship or contributions) then there is less chance that *target administrative behavior* will be achieved. Thus organizational incentive systems can be expected to play a very prominent role in determining the success of PDP's *institution-building* focus.

The Role of Incentives

Incentives are probably the most important single factor affecting the linkage between *administrative stock* and *targeted administrative behavior*. Thus they require priority attention from institution-builders.

One examination of organizational factors influencing project implementation states:

For a design to be implemented as intended, organizational behavior must be reliable. That is, incentives for people to act as intended must be stronger than pressures that support other behavior patterns.⁸

⁸ George Honadle, "Anticipating Roadblocks In Organizational Terrain: Lessons From A Case Study Of How Organization Design Makes A Difference" in George Honadle and Rudi Klaus (eds) International Development Administration: Implementation Analysis For Development Projects (New York: Praeger Publishers, 1979).

Thus, any discussion of incentives must include the system of formal and informal rewards or sanctions which twist staff behavior away from that which is needed for desirable project performance.

Many different factors can influence performance incentives. For example, inadequate salary levels (which make two or three jobs necessary) can introduce conflicting loyalties, lower organizational commitment and decrease the time spent on the job. In other situations, management procedures can actually provide disincentives for performance. For example, responsibility for a vehicle (*administrative stock*) is often given to one person. This identifies the person accountable for the vehicle's condition and thus simplifies management. However, when this assignment is combined with certain financial management procedures, it rewards people for non-performance and it can penalize them for following *targeted administrative behavior*. That is, when the responsible staff member receives, in cash, a standard monthly allotment to cover the cost of gasoline and routine maintenance, there is an incentive *not* to make frequent visits to isolated rural areas because this increases gasoline costs and raises the probability of minor repairs and other maintenance. Since anything over the allotment must come from the civil servant's own pocket, such a performance can be an effective deterrent to

delivering services to rural areas, monitoring field activities, or incorporating villagers into project decision making.

Increasing *administrative capability* for poverty-focused rural development thus requires the replacement of disincentive systems with rewards for undertaking bottom-up, integrated action to assist poor villagers to improve their welfare. Moreover, a necessary step in improving capability is targeting general types of staff behavior and examining existing incentive systems which either support or discourage such behavior. Supportive incentives might then be reinforced or expanded, whereas disincentives might be discarded or suppressed.

Thus the desirability of an incentive system is determined in relation to *targeted administrative behavior*, which in turn is based on *institutional progress*. However, before behavior can be targeted, it is necessary to know what practices have been found to be effective contributors to successful rural development administration.

Key Development Administration Practices

Organization and management factors can turn the best of policies into very different results. For example,

- Improper procedures can delay project activities to the point where project beneficiaries incur financial losses;
- Inadequate communication channels can make it difficult to identify problems while they are still small enough to be managed without a major diversion of manpower or other resources;
- Lack of authority *in* the field can delay action until a point where the problem has changed and the authorized remedy is no longer appropriate;
- Lack of direction *to* the field can create confusion which results in benefits diverted from the target group, in "unintegrated" activities which cancel each other's contribution, or in poor attention to technical details.⁹

The list can continue indefinitely. However, there are some general elements which emerge from development administration experience as important for improving the chances for success. They include the following:

- A clear division of responsibilities among more than one level of governments;¹⁰
- Involvement of beneficiaries in project decisionmaking;¹¹

⁹ See Honadle, "Anticipating Roadblocks ..." *op cit.*

¹⁰ Norman Uphoff and Milton Esman, Local Organization For Rural Development: Analysis of Asian Experience (Ithaca: Cornell University Rural Development Committee, 1979)

¹¹ Elliot Morss, John Hatch, Donald Mickelwait and Charles F. Sweet, Strategies For Small Farmer Development: An Empirical Study of Rural Development Projects (Boulder: Westview Press).

- Simple documentation systems and management procedures;
- Joint programming procedures which involve all those actors with implementation responsibility;
- Staff should participate with their supervisors in setting work targets;
- Managers should help staff to do their jobs better rather than punishing them for doing their jobs poorly;
- Reports should be "lean and functional" emphasizing summarized essential information and recommendations for action rather than justifying a mistake or delay;
- Communication should be direct from the implementor to those responsible for a constraint without filtering requests through multiple layers of bureaucracy;
- Meetings should be functional and used sparingly rather than calling a meeting as an automatic response to any problem which arises; and
- The flexibility to learn from mistakes and to adjust to changing circumstances must be an integral part of rural service delivery programs. ¹²

¹² Items 3-9 are drawn from many sources, including ones previously cited. Also see, Robert Chambers Managing Rural Development (Uppsala: Scandinavian Institute of African Studies, 1974) and Charles F. Sweet and Peter F. Weisel, "Process Versus Blueprint Models For Designing Rural Development Projects" in Honadle and Klauss op cit.

Introducing or reinforcing these elements will most likely improve the chances for institutionalizing successful administrative behavior and improving local capability to undertake rural development programs.¹³ However, without appropriate incentive systems, such targeted behavior is likely to remain only an elusive dream.

Our general discussion in this section contains direct implications for PDP.

¹³ It should also be noted that these observations are based on experience throughout the developing world. Any attempt to build administrative capability should include in its "stock" some type of "information center" which collects (library) and distributes (newsletter, workshops, etc.) information about development experiments elsewhere.

TABLE 3-1

PROXIES FOR IDENTIFYING INSTITUTIONAL IMPACT OF PDP

Indicator	Impact Dimensions
Streamlined financial management procedures continue and they result in maintaining quick disbursement times	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative capability
Adoption of forward planning techniques (networking, etc.) as routine practice	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative capability
Central government investment in target areas continues	<ul style="list-style-type: none"> ● Administrative stock ● Behavioral outcome
Expenditure pattern reflects rural poverty-focused priority	<ul style="list-style-type: none"> ● Administrative stock ● Institutional progress
After technical assistance withdrawn former local staff of PDP-I function as consultants, directors or initiators of administrative reforms based on PDP innovations	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative capability
Complementarity of line agency projects demonstrated in written form and reflected in yearly provincial budgets	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative capability
High attendance at "integrated" planning meetings and monitoring exercises show inter-departmental participation	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative capability
Continual use and improvement of documentation system (DIPs, DUPs, etc.) based on PDP experience and experimentation	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative capability
Activity and/or policy stressing "targeted administrative behavior" and which uses substance on terms emanating from PDP	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative stock
Policies and/or behavior and/or planning on operational documents reflect content of "concept papers" prepared by technical assistance staff	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative stock

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TABLE 3-1 (Continued)

Indicator	Impact Dimensions
Development and use of prosperity indicators in project design, selection, evaluation	<ul style="list-style-type: none"> ● Behavioral outcome ● Institutional progress
As initial village target group income rises, projects shift to less advantaged groups	<ul style="list-style-type: none"> ● Behavioral outcome ● Institutional progress
Target group shift criteria established and followed	<ul style="list-style-type: none"> ● Administrative capability ● Behavioral outcome ● Institutional progress
Rural villagers incorporated into planning decisions/implementation processes through mechanisms initiated or inspired by PDP	<ul style="list-style-type: none"> ● Behavioral outcome ● Institutional progress
Beneficiary-level credit funds <u>continue</u> to revolve (or in the case of <u>initial failure they begin</u> to revolve) based on PDP recommendations	<ul style="list-style-type: none"> ● Behavioral outcome ● Institutional progress
Periodic examination of appropriateness of incentive system and adoption of new procedures when necessary	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative capability
Effect on rural poverty focus used as criteria for targeting administrative behavior and examining incentive system	<ul style="list-style-type: none"> ● Institutional progress ● Behavioral outcome
Routine assessments of administrative stock in relation to targeted administrative behavior incorporated into staffing requests forward planning documents, etc.	<ul style="list-style-type: none"> ● Behavioral outcome ● Administrative capability
National government confidence in provincial capability demonstrated by: <ul style="list-style-type: none"> a. promotions of people with PDP experience b. increased autonomy for local staff c. use of provincial personnel as instructors in national level seminars on poverty-focused rural development 	<ul style="list-style-type: none"> ● Behavioral outcome ● Institutional progress