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SUSTAINABILITY: LESSONS FOR ANE

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**SUSTAINABILITY: LESSONS FOR ANE
(Executive Summary)**

PURPOSE. This paper summarizes the experience of ANE, A.I.D. and others in dealing with the challenge of sustaining development benefits. It is divided into two sections. The first overviews the major sustainability issues, and the second offers guidelines for incorporating sustainability concerns into project design, implementation, and evaluation.

SECTION ONE - OVERVIEW

INTRODUCTION. Along with other donor agencies, A.I.D. is increasingly concerned with the sustainability of development impacts resulting from foreign assistance. Discussion of sustainability prospects is now required in congressional presentation project fact sheets; and the AA/ANE has made sustainability a primary criterion for evaluating new starts and conducting annual mission portfolio reviews. Development sustainability is a goal that poses important challenges to ANE's focus on open markets and open societies. ANE/TR/ARD has been working with the International Development Management Center (IDMC) of the University of Maryland over the past several years to explore the dimensions of sustainability, develop a sustainability model and measures, field-test the model, and prepare guidance for Agency staff.

A WORKING DEFINITION. We define sustainability in the following way: The ability of a system to produce outputs or benefits valued sufficiently by beneficiaries and stakeholders (actors other than users with an interest in what the system does) to ensure enough inputs to continue performance with long-term impacts. This definition highlights sustainability's financial and economic dimensions, but it emphasizes the link between sensitivity to client demand and the value assigned to outputs by various groups. The economists's notion of value as expressed by market-clearing prices that balance supply and demand is expanded to reflect the fact that subsidies and non-economic factors enter into various stakeholders' perceptions of value.

This definition emerges from the ANE/IDMC investigation of sustainability, which shows that it hinges upon three factors. Sustainability depends upon maintaining: a) tangible outputs and benefits, b) resource flows (revenue, staff), and (c) cost effective service delivery mechanisms.

IMPLICATIONS. Addressing sustainability has several implications right from the earliest stages of thinking about projects (or program and sector assistance). Key is host country commitment at both central and local levels; sustainability cannot succeed if it is seen as a donor agenda. Host government policies and views of the appropriate role of government are also critical and must

be confronted directly. The environment for sustainability in many countries faces problems of foreign exchange shortages, budget and debt crises, unrealistic social goals, overcentralization, outdated legal and regulatory systems, and so on.

Another early issue concerns use of the private sector. The profit motive makes the private sector more responsive to client demand, thereby enhancing sustainability prospects. But capitalizing upon the private sector's potential depends upon a stable and effective public policy environment. Creative public-private combinations can be used as means to make the transition to increased private provision of goods and services.

INITIAL DESIGN CONCERNS. Several design features need to be looked at carefully from the start. These include: the complexity of the design and the participation of multiple agencies, the differentiation of responsibility for project design and implementation, the length of the project payback period, the determination of post-investment benefit flows and service levels, the generation and response to client demand (private sector), and financing mechanisms. This latter item is especially important, because without viable finance arrangements, and the public or private system to handle them, benefit streams and sustainability will collapse. Thus central to thinking about design is examination of recurrent costs and user fees.

CHOOSING PUBLIC OR PRIVATE. The following triage is suggested for making this choice. High demand/rapid pay-out projects (e.g., urban curative health services) have the greatest potential of strong public support and private sector profitability. Cost recovery through direct user fees is possible. Moderate demand/longer lead-time projects (e.g., applied research) have potential for client support, though not at the outset. Benefits appear later, and assured public financing and phased transition to user fees are needed. Low demand/important policy projects (e.g., female education) will need to be carried out by the public sector for the long-term.

NEXT STEPS. To incorporate sustainability into Agency thinking and procedures requires continuous action. Several potential steps for future consideration emerged from an ANE/IDMC workshop in May 1990:

- o Explore adding sustainability issues and guidelines into existing PM/Training Division courses for ANE officers and/or design a freestanding sustainability course.
- o Accumulate more specific field examples of the application of sustainability guidance to ANE projects and programs in various sectors.
- o Disseminate to the field examples of projects that are

dealing successfully with sustainability, or of new thinking and "lessons learned" via newsletters or other mailings.

- o Set aside PD&S funds for mission sustainability initiatives.
- o Continue the emphasis on sustainability in ANE project and program reviews.

SECTION TWO - CHECKLIST

ANE/TR/ARD and IDMC have prepared guidelines to help Agency staff build sustainability into all phases of the project cycle. This guidance supplements A.I.D. Handbook 3.

IDENTIFICATION AND SELECTION. The most substantial impact on sustainability can be made at this stage, where the basic parameters of the investment are set. Designers should conduct a preliminary sustainability assessment and plan in-depth ones for the design and implementation phases. The investment should be framed for a mix of public and private institutions depending upon the nature of the goods and services. Priority should go to projects producing early benefits and short-term performance targets, or longer pay-out projects should be divided into shorter components. Preliminary assessment will help designers identify key stakeholders and test for their perception of, and commitment to, an important development problem and the need for investment.

DESIGN. Projects should be viewed as long-term investments in a country's development rather than life-of-project contractual agreements. Design must deal with sustaining benefits and outputs after donor funding ends and with how to lay the foundation for continued production during the investment period. This base can be laid by mobilizing stakeholder support, maximizing use of the private sector, setting up mechanisms to handle recurrent costs, and clarifying capacity-building needs.

Support can be mobilized using the results of a stakeholder analysis to identify who makes critical decisions influencing sustainability, and on what basis, and how they can be influenced to sustain project activities. The use of strategic planning should be introduced to host country designers and potential implementors. Projects should be integrated into existing organizations, even if objectives need to be scaled down, or stretched out.

The role of the private sector needs to be carefully studied. Legal and regulatory structures influencing service delivery need to be examined to determine barriers and/or incentives for

private sector involvement. Contracting out, joint public-private ventures, or privatization are all options. Services need to be priced to reflect true costs; if subsidies are included, they should be transparent.

Marketing techniques are useful at the design stage. Market research can determine existing short- and long-term demands, or explore new markets. Marketing can help win stakeholder support, reinforce the need to deal with recurrent costs, and so on.

It is critical to use indigenous human and organizational resources during design and the other project phases. Authority and responsibility should be delegated to recipient stakeholders to the extent possible. Training should be included to help nationals acquire the needed expertise to build management capacity, and to institutionalize processes for assuring high quality human resources over time.

IMPLEMENTATION. Enhancing the prospects for sustainability requires looking at the complementarities and trade-offs between short-term performance to meet planned targets and long-term capacity to maintain benefit production. Speeding implementation in the short-term risks bypassing capacity creation, thus inhibiting sustainability. Agency staff can foster sustainability by collaborating with host country stakeholders, experimenting with various modes of service delivery (e.g., public/private), phasing in the assumption of recurrent costs and financial monitoring and recruiting staff that contribute to success in the long-term.

The strategic planning process initiated during design should be continued to maintain stakeholder commitment and build skills. A "project launch" workshop can be an effective strategic planning bridge between design and implementation. After implementation start-up the A.I.D. project officer should encourage implementors to establish appropriate management systems for the long-term and should initiate an ongoing dialogue on policy issues relating to resources and incentives.

EVALUATION. Sustainability evaluation targets the three factors (ongoing outputs, delivery mechanisms, and resources), focusing decisionmakers' attention on what needs to be done to increase the chances for sustaining benefits as the investment period terminates and the post investment period begins. Evaluation will be most effective if not left until the end of the investment phase. Rather, assessment should start two to three years before then to provide input to extended planning for post investment activities.

The evaluation phase is the appropriate point to institutionalize the strategic planning process begun during design and continued through implementation. National stakeholders should be encouraged to assume leadership of this process. In addition, this is a good time to conduct other studies and analyses in

support of sustainability, such as market research, institutional assessments, privatization studies, budget and cost projections, and so on. Particularly important is helping the organization(s) responsible for post investment service delivery to develop viable recurrent cost and human resource strategies.

CONCLUSION. Applying the guidelines should be seen as a cumulative process, building over time from design through the post investment period. If conditions for sustainability at a given phase are not conducive, modification and redesign will be called for to assure that what is needed to achieve sustained impact is in place for each step of the development investment cycle.

SUSTAINABILITY - LESSONS FOR ANE

PURPOSE. The purpose of this paper is to summarize the experience of ANE, A.I.D., and others in coping with the constant challenge of sustaining development benefits and to suggest areas for renewed bureau attention in designing and implementing our programs. The paper is divided into two basic sections: an overview aimed at the policy level and a more general audience in the missions, and a step-by-step checklist amplifying and detailing the subject targetted at project designers, implementors, and evaluators.

SECTION ONE - OVERVIEW

INTRODUCTION. There is growing interest in improving the sustainability of development assistance, due mainly to the reduced amount of resources available for development purposes as well as the growing evidence on poor sustainability performance. In 1988, A/AID required that the Congressional Presentation discuss prospects for sustainability in the project fact sheets for all new proposed activities. The ANE Bureau has highlighted development sustainability by requiring that the topic be thoroughly explored also in PIDs and project papers. Furthermore, AA/ANE has made sustainability a core issue in annual portfolio reviews, beginning with FY 90.

Our systematic exploration of the topic began in 1987, repeated in 1989, at ANE's Agriculture and Rural Development Officer Conferences. An AID/W-wide working group on sustainability is active. ANE/TR has been collaborating for several years with the International Development Management Center (IDMC) of the University of Maryland in better understanding the dynamics of sustainable development. And together with ANE/PSD, ANE/PD has constantly probed for design concepts which make more effective use of private enterprise and creative finance to ensure the durability and relevance of our assistance investments.

Development sustainability is a goal that poses important challenges to ANE's focus on open markets and open societies. As our region's economies restructure, the interrelationship between the public and private sectors is a key issue. The marketplace deals mercilessly with non-sustainable private enterprise, but public investments and institutions are more problematic. We are compelled to constantly focus our attention on how to engage civic support for and participation in public programs, how to improve government capacity to mobilize resources and cut the costs of essential public services, and how to induce the formation of public (non-governmental) "associations" to supplant the direct role of government management. We are, or should be, constantly posing the question of what market (usually user) tests are being applied to gauge the necessity and utility of

public investments. The lessons captured herein attempt to provide some practical guides to coping with these questions. This work builds on the the basic information contained in A.I.D. Handbook 3 on sustainability, as well as other experience and guidance (see bibliography). From all these sources, we seek to bring to the fore the most critical sustainability issues that designers and implementers should address at each stage of the project (or program) life cycle. These lessons are meant to serve as practical tools for Washington and field staff and managers who seek to sustain benefit flows by strengthening host country commitment at all levels and in all sectors, to ensure sufficient operating and reinvestment funds through direct cost-recovery or other financial streams, to promote local management and proprietorship, and to maximize private sector participation.

A WORKING DEFINITION OF SUSTAINABILITY. Not surprisingly, most of the lessons about what makes development projects sustainable are not new or revolutionary; more often, we are rediscovering and expressing a new commitment to well-proven, even self-evident, truths that tended to be pushed into the background in our rush to design projects, obligate funds, and go on to the next intervention. Our working definition of sustainability is straightforward: The ability of a system to produce outputs or benefits valued sufficiently by beneficiaries and stakeholders (i.e., actors other than users with an interest in what the system does) to ensure enough inputs to continue performance with long-term benefits and impacts. For A.I.D. and other donors, the system's ability to produce becomes a critical concern when our technical or financial support is nearing termination. Quite naturally and appropriately, this definition emphasizes the financial and economic dimension of sustainability, but captured within it is the notion of good systems management and sensitivity to clientele and other stakeholders, which transcends simple dollars and cents calculations. "Value" is usually reflected in market-clearing prices: on the economists' utility curve, if prices change, value also changes, as a new balance of supply and demand is achieved. Classic examples are advanced medical techniques, such as open heart surgery: the benefits of each technological advance are exceedingly "valued" by the direct beneficiary, but taxpayers financing or subsidizing these procedures in developing countries may not assign the same value.

The definition is built on three principles that all must be in place to ensure sustainability: 1) tangible benefits have to continue to flow, 2) resources (revenue, staff) have to continue to flow, and 3) some delivery mechanism for goods and services--public or private, formal or informal--must be assured, even though the character or ownership of this "system" or intervention changes over time.

IMPLICATIONS AT THE CONCEPTUAL STAGE.

a. GOVERNMENT ROLES. Attention to sustainability concerns must begin at the earliest stage of project conceptualization. (Note: the term "project" is used throughout to encompass program and sector assistance and other development activities, unless otherwise qualified.) Host country commitment at the central and local level are key. The host government(s) must perceive mutuality of interest in sustaining continued investment or other material support in a project; if the host government believes that it is merely accommodating a donor interest or agenda, the prospects for sustainability diminish rapidly. Nonetheless, it is the responsibility of missions to analyze those aspects of host country policy environments that mitigate against project sustainability, and confront the government as necessary. Problems include chronic foreign exchange, budgetary, and debt problems, unrealistic social goals, such as universal free health care, excessive centralization, antiquated legal or regulatory frameworks, and distorted budgetary priorities. Taxes assigned to local governments tend, in general, to have narrow bases and be quite inelastic; central governments tend to reserve for themselves the more productive tax instruments. Perversely, development projects may succeed in improving local economic conditions, but because of low elasticities tax revenues do not respond proportionately, adding to local governments' financial burdens. One also has to guard against host governments pressing donors to assist in developing projects in regions far from main population centers where it is difficult to recruit/retain staff and obtain supplies and services.

b. PRIVATE SECTOR ROLE. ANE policy prefers that development investments in the economically productive sectors and, where feasible, in the infrastructure and social services sectors be made by or through the private sector. One of the first questions to be posed, after analysis determines that a development problem needs addressing, is whether the required intervention can and should be carried out through the private sector. Because the profit motive makes the private sector more sensitive to consumer demand, the prospects for financial viability and sustainability are enhanced if there is sufficient demand, within a stable and predictable public policy framework (e.g. laws, regulations). Even in projects within the public sector, experience has shown that building in the private sector

either as intermediaries (eg. contracting-out public services) or as "market testers" (eg. advisory boards of clients/users) extends prospects for sustainability through time.

To recap, project conceptualizers should know whether there are "killer" conditions in public policy that will undermine the durability of any intervention, and ask whether the private sector can do this job better than government. Also public policy needs to be reviewed to determine whether the intervention can be sustained by responding to latent "market" demand, or whether it has to be put in place in anticipation of effective demand and willingness-to-pay. If the latter, other means of long-term support have to be identified and locked into place.

INITIAL DESIGN CONCERNS. A 1987 study showed that only 11% of A.I.D. projects received highly positive sustainability ratings; 26% received strongly negative ratings. Sustainability does not seem to be a major factor in project design. Few projects include explicit plans to mobilize resources or develop costs in the long run, and host country policy problems were often "assumed away" rather than confronted.

Complex, multicomponent designs--involving numerous government agencies, especially--should be avoided. The likelihood of a coherent, coordinated project continuing through time with many actors is slim. One method that may have merit is to allow agency sub-projects to proceed at their own pace--building up management and financial/budgetary support from within the institution--while devising positive reinforcement (e.g., special allocations of budget or staff) for those agencies which cooperate voluntarily. Activities which become the "property" of host ministries are likely to be prolonged (even if inefficiently).

Designers should be alert to differentiation of responsibility for project initiation and operation in host governments. For example, the Ministry of Planning may concern itself with investment and its finance, frequently relying on extrabudgetary resources such as foreign loans, while the Ministry of Finance may be unaware of the new recurrent costs that it will be called upon to cover once the capital is invested.

Designers should approach very cautiously projects with long payback periods. It is difficult to sustain interest and commitment from beneficiaries if the benefit stream is diffuse

or drawn out. Segmenting investments into shorter, even if sometimes suboptimal, paybacks should be explored.

Determine what project outputs/benefits are to be sustained after donor funding ends. The breadth or intensity of project interventions reached during the "investment" stage need not continue unabated indefinitely to be judged successful, although continuing the appropriate level of inputs and outputs in the future may be even more critical. Examples are health campaigns (immunization, malaria control) which after big pushes can abate somewhat financially and administratively, but which demand firm support in public policy and investment priority to avoid being re-done later. Achieving food self-reliance may require extraordinary public research and extension efforts, which can be eased back (perhaps even privatized) in latter stages. All parties (implementors, beneficiaries, auditors) must understand the nature and type of post-investment stage activity to prevent future misunderstanding on level of services and a breakdown in expectations between client and service/goods provider.

DEVELOPING CLIENTELE. The key to sustaining output flows is meeting demand at an acceptable price. In most cases, this means increasing the availability of or access to project goods and services. Generating or meeting demand--creating a market for goods and services--is often best done by the private sector, and so the first "benefit sustainability" question should be whether the private sector can provide it better.

Whether run by the public or private sectors, projects should be market-driven, finding mechanisms to gauge public needs. Project revenues are obtained either by selling outputs to finance inputs or by government finances. The former method requires the production of outputs that are highly valued by consumers, usually at some explicit market price. The latter method requires the production of benefits for which consumers will clamor, perhaps at an implicit price, creating political pressure on (and benefits for) decision makers. In this way, it becomes politically rational for government to continue funding the production of those outputs. We are assuming, of course, some degree of "voice" for beneficiaries when we speak of consumer clamor for benefits. Developing clientele for sustainable public goods also may mean some degree of empowerment for groups that do not have a strong voice in public affairs: children, women, certain ethnic groups, the aged. Many development interventions, especially those with major policy reform objectives, will create "winners" and "losers." Project designers should have a good appreciation of the potential for sustainability resulting from these impacts.

An important side benefit of beneficiary "ownership" is the greater likelihood of monitoring and surveillance (accountability) by policy makers and by the public at large. Devolution of control of service delivery brings local responsibility for operation and maintenance of the benefit-producing system. A classic example in the ANE region has been the creation of water user organizations.

Privatization of service delivery is frequently the best way to ensure the provision of high quality, sustainable outputs demanded by clientele. Because the profit motive makes the private sector more sensitive to consumer demand, the prospects for financial viability are enhanced.

There is less cost and risk in strengthening an existing private sector delivery system or infrastructure than in creating a new one, assuming a reasonably competitive business environment. One example was a seed production program supported by a U.S. company working through a well-established network of private merchants and banks; the need to set up costly new production and distribution arrangements--public or private--was avoided. Unserved needs may be, however, initially in the public domain, but the project actively should aim at fostering the transition of service delivery from the public to the private sector as soon as possible. Sustainability efforts within the context of project planning and implementation should not be an excuse to perpetuate public service roles when this job can be done better by the private sector.

FINANCING SUSTAINABILITY. Financial factors are central to sustainability. In the absence of viable finance arrangements, and the public or private system to handle them, benefit streams collapse, and with them, any hope of sustainability.

It is more appropriate to think of sustainability of benefits as a financial rather than an economic concept. While economic criteria and measures of benefit are useful in selecting the most viable among project alternatives at the feasibility/design stage, sustainability of benefits must reflect the flow of funds needed to cover operations. Flow of funds in the financial, as distinct from the economic, sense should cover allowance for depreciation of the original investment, working capital requirements, remuneration, taxes (if any), profit (where applicable), other recurrent costs, and--where international capital is concerned--foreign exchange convertibility.

A thorough financial analysis during project design is critical. Concern for sustainability enlarges financial analysis to include the financial viability of the activities that continue benefits after completion of the investment stage, such as maintenance, replacement, and renewal. There needs to be a strategy for financial recovery within the project. Only a financial analysis

that demonstrates that funds will be available through either direct cost-recovery (preferred) or host government appropriations (less assured) addresses directly the issue of sustainability of benefits. (In fact, there is strong evidence to suggest that prospects for sustainability are greater for projects that do not depend on general public funds.) Cost recovery through user fees or "pooling" under insurance schemes is further discussed below.

Ultimately, financial analysts have to determine whether projected benefits justify the continued investment of resources in light of alternative costs and constraints.

a. **RECURRENT COSTS.** What financial arrangements are being made for O&M and replacement of capital equipment? Will local currency and foreign exchange be there when needed? The most important single factor in sustaining development benefits is whether recurrent costs are financed. And yet weak budgeting practices, poorly designed resource mobilization instruments, and investment incentives which favor capital construction at the expense of operating and maintaining capital already in place undermine solutions to the recurrent cost problem.

Recurrent costs must be carefully estimated and commitments to provide them obtained before project approval. In fact, new activities should not be initiated until the recurrent costs for current or recent projects are met. Recurrent cost strategies must be continually updated by management during project life.

There are six major ways to address the recurrent cost problem:

1. Keep the recurrent costs as low as possible. If by project end (a) the system/institution is no longer dependent upon foreign experts, (b) uses appropriate technology that can be sustained domestically, (c) has finished institutionalizing structural changes and can resume normal operations, then it will need a minimum amount of extra resources.
2. Sell the project's goods and services for as much money as possible. Ideally, sales or user's fees should more than cover all costs, except as this principle must be compromised for equity reasons.
3. Obtain a financial commitment from the appropriate internal or (less desirable) external funding agency. This usually requires lobbying, politicking, and marketing the decision makers.
4. Phase in assumption of recurrent costs by the host government and/or the beneficiaries during the project life.

5. Obtain contributions from other national sources, preferably through local revenue measures or reduction of subsidies. Beneficiaries can, at least, contribute labor and materials and, preferably, financing. This strengthens their involvement, commitment and sense of ownership.

6. Seek out and develop opportunities throughout the project life for the private sector to produce the project's outputs.

As experience in the local development program in Egypt pointed out, voluntary contributions are one means of using locally collected funds for locally determined needs. As contributions to these "special accounts" were voluntary, revenue did not have to be returned to the central government. However, these arrangements must be backed up by thorough accounting and auditing arrangements if they are likely to pass scrutiny by A.I.D. or the host government.

There should be sufficient time budgetted for a proper transition to post-project operations. This transition begins with a "sustainability review" and detailed plan for attaining sustainability at least one year before termination of donor funding. Initial project strategy should build sufficient slack into the budget so there is funding for making inevitable adaptive changes to attain sustainability. It would be wise to conduct a sensitivity analysis, adjusting expected budget or funding streams by, say, plus and minus 15 percent to see how much risk there may be in prudently covering recurrent costs. Be alert to the fact that during periods of budget stringency, people (staff) are almost always saved by decision makers at the expense of capital investment and deferred maintenance.

b. **USER FEES.** Worthy of special discussion is direct recovery of program costs through user fees. In the absence of user fees, a government must either reallocate funds within the budget or have the program underwritten by the community at large--both often problematic courses. User fees often serve as an incentive payment for service providers, provided there is local retention of revenues. User fees are most appropriate when users are easily identified and can be economically excluded from enjoying the service in the absence of compliance with the service charge. In the health sector, people appear willing to pay user fees for high quality curative health services but not for preventative services. In the new Cost Recovery for Health project in Egypt, this preference will be used to good effect as fee-paying patients will have private rooms rather than free accommodations in public wards. Raising funds within a community in support of a health care system has not been seen to be successful on a long-term basis. However, if services are shown to be useful and relevant, experience shows that even the poor are willing and able to pay, and appear to value the services

more precisely because they do pay. User charges are often dismissed on equity grounds. Such an argument ignores the fact that the real choice may be between having a project that is sustainable but which excludes the poorest segment of the population versus having no project at all.

Health maintenance organizations and other pre-payment schemes are gaining adherents in increasing number of ANE and Latin American countries. A variant of user fees per se are insurance "pooling" arrangements, with good cash management yielding multiplier and mobilization effects on available capital. One possible role for A.I.D. support may be in making prepayment schemes less vulnerable to rising and falling economic/financial fortunes by helping to finance backup reserves to cover the "float". It should be recognized that HMO programs have been most successful in targetting the more affluent 10-20% in middle income countries. Charging for health and other social services that were formerly "free" can be extremely difficult politically; consideration should be given to adding some service(s) for which user fees can be charged.

CHOOSING PUBLIC OR PRIVATE. Some sort of triage among which projects should be sustained within the public sector and which should be left for the private sector may be useful:

High public demand/rapid pay-out projects (urban health services) have the greatest potential for explicit public support and profitability for private enterprises. Projects which have totally private benefits should be expected to be self-sufficient. Direct revenues from user charges is workable.

Moderate demand/longer lead-time projects (such as applied research) may have the potential for client support, but not be at that stage at the onset. Both assured sources of public financial support and transition to user charges are needed.

Low demand/important public policy projects (female education) will remain for government account indefinitely, so sustainable administrative and financial arrangements within the government structure must be assured from the beginning.

One important variant of the first (privately-served) category are the private enterprise-like roles that may be played by cooperatives, associations, PVO's, and even extended families. These options may be a middle path between reliance on for-profit enterprises or on government institutions.

SUMMING UP. To recap, what are the key sustainability questions to ask ourselves in project design:

- o What project benefits or outputs are to be sustained after donor funding ends?

- o Who in the host country will benefit from project success? Are there losers as well as winners? How will we build a constituency during project implementation?
- o What host country policies threaten the sustainability of the activity? How are they being mitigated? Conversely, what policies support sustainability?
- o What management capacities, technical expertise, cost-recovery schemes, staffing and incentive structures and maintenance systems are being developed to continue project benefits? Will these arrangements really be in place by project end, are they flexible and adaptable?
- o What financial arrangements are being made for O&M and replacement of capital equipment? Will local currency and foreign exchange be there when needed?
- o Do projected benefits justify the continued investment of resources in the light of alternative opportunity costs and constraints?
- c What is an appropriate time period to ensure that the key conditions for sustainability will be created and operative?

NEXT STEPS. The solutions for attaining sustainability are not static, but rather constantly evolving. New financial techniques are emerging all the time, for example. Sustainability is more a state of mind rather than a mechanical issue subject to fixed formulae or guidelines. We must constantly be looking for opportunities and testing old assumptions. This may be the most important "lesson learned" of all.

Inevitably incomplete, this summary of experience in sustainability will have to be reinforced in several ways for the subject to maintain its freshness and vitality:

The ANE Bureau will be asking PM/Training Division to see how various existing training programs--including the annual summer technical workshops in the various functional disciplines--can be oriented to emphasize sustainability issues and principles. Topics might include new financing techniques and stakeholder analysis. A "stand-alone" training program in sustainability will also be explored.

The bureau's sector strategies that are now emerging will place heavy emphasis on sustainability, and provide more specific examples of the application of sustainability

principles in the design and implementation of sector-specific projects and programs.

Examples of projects which have good prospects for sustainability and other new thinking on the subject will be disseminated to the field from time to time, perhaps in a bureau newsletter on the subject or in an "occasional series", or as part of the various sectoral newsletters ongoing or planned.

PD&S funds may be set aside specifically for mission initiatives on sustainability issues.

Finally, bureau project and program reviews will continue to place heavy emphasis on evidence of sustainable interventions and provide tailored guidance where possible.

SECTION TWO - CHECKLIST

This checklist of sustainability concerns--developed by ANE/TR/ARD in cooperation with IDMC and reviewed at a workshop on May 2--highlights the steps that need to be taken throughout--and beyond--the project investment cycle. The guidelines are separated into four sections reflecting that life-cycle: identification and selection, design, implementation, and evaluation. Sustainability is viewed here as an "additive dimension" to more conventional investment considerations. Each section begins, therefore, with a comparison of the "conventional" investment and sustainability issues. Within each section, more specific issues and guidelines are presented for each of the three elements necessary for achieving sustainable development:

- responsive output flows;
- cost-effective delivery mechanisms; and
- adequate resource flows.

I. Identification and Selection

Of all the stages in the development investment cycle, the most substantial impact on sustainability can be made during the identification and selection phase. This is where the basic parameters of the investment are determined. Once these parameters are set, they are difficult to change during subsequent investment design and implementation. It is important for development professionals to understand the factors that facilitate sustainability so that they can make optimal decisions in selecting loan and grant opportunities.

**COMPARISON OF PROJECT
IDENTIFICATION ISSUES**

Conventional

1. Does the project idea conform to development policies and strategy?
2. Does the project idea identify feasible actions which are required for the project to succeed?
3. Is the project idea better at responding to a recognized development need than alternative solutions?
4. Are sufficient human and financial resources available to design implement and evaluate a successful project?

Sustainability

1. Does the project idea conform with the long run development policies and strategies?
2. Does the project idea identify feasible actions which are required for benefits to continue after donor funding is completed?
3. Does any alternative address current and anticipated market demands sufficiently to cover recurrent costs?
4. Are sufficient human and financial resources available to design and evaluate a project so that it accomplishes its long term goals?

A. Identification Phase: Sustaining Responsive Output Flows

1. Issues:

- a. What benefits are required for the long-term, and which are not?

2. Guidelines:

- a. Assess whether key stakeholders recognize that an important development problem exists that can be resolved only through a long-term development investment.
- b. Verify that a commitment exists from key stakeholders to give high priority to a long-term investment approach to dealing with the problem, based on an initial

assessment of economic and political benefits. Collaborative involvement of national decision makers is important. This commitment must build throughout the identification and design stages and reach a critical mass as implementation begins.

B. Identification Phase: Sustaining Cost-Effective Delivery Mechanisms

1. Issues:

a. Can and should the required intervention be carried out by the private sector?

2. Guidelines:

a. Employ a mix of public and private institutions, appropriate to the nature of the goods or services being produced, to promote responsiveness and accountability, and to ensure long-term financing and internal incentives.

C. Identification Phase: Sustaining Adequate Input Flows

1. Issues:

a. What are the public policy conditions that will support or undermine the durability of the intervention?

b. How can the interest and commitment of beneficiaries, stakeholders and/or donors be maintained?

2. Guidelines:

a. If pre-conditions exist that indicate the project should be pursued, allocate substantial investment dollars to in-depth sustainability assessments in the design and implementation phases of the identified investment.

b. Favor projects that have early benefits and do not rely only on benefits that will appear farther downstream. Interventions should include short-term performance targets or be segmented into shorter investment packages.

II. Design

COMPARISON OF PROJECT DESIGN ISSUES

Conventional

1. What are objectives?
2. What is the technology generation and adaption approach?
3. What is implementation plan?
4. What is cost and human resource requirements?
5. Is project feasible?

Sustainability

1. What are objectives after project is over?
2. What technology approach can be supported following the project?
3. What is the plan for building long term capacity?
4. What additional resources will be needed to carry out sustainability activities?
5. Are the sustainability activities feasible?

AID interventions must be seen as long-term investments in a country's development rather than as contractual agreements focusing on the life of the project. Otherwise sustainability gets neglected. During the design phase, concern must be given to the benefits or outputs that are intended to be sustained after donor funding ends, and to how to lay the foundations during the investment period to allow for their continued production.

A. Design Phase: Sustaining Responsive Output Flows

1. Issues:

- a. Can the provision of goods and services be privatized?
- b. What benefits or outputs are to be sustained after donor funding ends, and which are not?
- c. Who in the host country will benefit (or lose) from success of the intervention?

d. What host country policies, institutional structures and procedures support sustainability, and how will these key conditions for sustainability be created and remain operative?

2. Guidelines:

a. Analyze which sector (public, private, or non-profit) should produce or be encouraged to produce the outputs. A key determinant of the interest of private sector will be the legal and regulatory structures that impact upon private sector involvement in delivery of goods and services.

b. Undertake political/bureaucratic analysis to find out who makes the critical decisions that affect sustainability, on what basis they make them, and how these decision makers can be influenced to sustain the activities. In addition, assess stakeholders' attitudes and influence to plan strategies for building constituency of support.

c. Scale down objectives so that special implementation units are not required, or can easily be phased out. There is often a conflict between the best unit for implementation and for sustainability. Special units may be able to implement activities more effectively than traditional agencies, but they tend to lose that effectiveness once external resources are no longer available.

d. Incorporate market research on both short and long term demand for outputs and where new markets for outputs might be developed. Consider how to promote or sell the outputs, how to open new markets, and ways to improve the quality and demand for the outputs.

B. Design Phase: Sustaining Cost-Effective Delivery Mechanisms

1. Issues:

a. What are the characteristics of the market for the project's outputs and what role should the public and private sectors play in the provision of these goods and services?

b. How to shift from public to private sector operation over the course of activity, as appropriate to the nature of the goods and services?

c. What technologies can be maintained following the investment period with the level of resources likely to be available, and what types of resources are needed to make these effective?

d. What aspects of long-term capacity need to be developed during the investment phase to continue benefit flows (management systems, technical expertise, cost-recovery, staffing, and incentive structures)?

2. Guidelines:

a. Emphasize private sector participation in public investments through contracting-out or privatization options, and support the public role of promoting broadly available information, monitoring and surveillance to ensure accountability.

b. Utilize strategic planning. Clear strategies at the beginning can be incorporated into the organizational culture and contribute to subsequent sustainability. The most promising time to establish a strategy for sustainability is often early in the institution's history before "bad habits" become ingrained.

C. Design Phase: Sustaining Adequate Input Flows

1. Issues:

a. What extra resources are needed to enhance long-term capacity and benefits, including additional financial analysis during design to examine private sector alternatives?

b. How can a constituency be built during implementation to support long-term objectives?

c. What financial arrangements need to be made for O&M and replacement of capital equipment, and will local currency and foreign exchange be available when needed?

d. Do projected benefits justify the continued investment of resources in light of opportunity costs and constraints?

2. Guidelines:

- a. Identify and obtain or phase in assumption of recurrent costs. The most important single factor in sustaining development benefits is whether recurrent costs are financed and used to maintain long-term capacity. There are six major ways to address the recurrent costs problem.
- i. Let the private sector produce the goods and services.
 - ii. Keep recurrent costs as low as possible. By the end of the project the institution should be independent of foreign experts, use appropriate technology that can be provided locally or nationally, and have completed institutionalizing structural changes.
 - iii. Sell the activity's goods and services. Ideally, sales or users' fees could more than cover all costs, except as this principle must be compromised for equity reasons.
 - iv. Obtain a realistic financial commitment from an appropriate internal or (less desirable) external funding agency.
 - v. Obtain contributions from other national sources, preferably through local revenue measures or reduction of subsidies. Beneficiaries can, at least, contribute labor and materials and, preferably, financing. This strengthens their involvement, commitment and sense of ownership.
 - vi. Phase in assumption of recurrent costs by the host government and/or beneficiaries during the project life.

Because the profit motive makes the private sector more sensitive to consumer demand, the prospects for financial viability are enhanced. There is less cost and risk in strengthening an existing private sector delivery system or infrastructure than in creating a new one. Also, there is evidence to suggest that prospects for sustainability are greater for activities that do not depend on general public funds. The design team should work out a strategy for financial recovery. Concern for sustainability enlarges the financial analysis to include the viability of the activities that continue benefits after the investment period such as maintenance, replacement and renewal.

b. Reduce dependency. As much as possible, indigenous resources should be used in the project. Maximize the use of local organizations and beneficiaries. Delegate authority and assign responsibilities to those who will benefit.

c. Make subsidies transparent. As a rule services should be priced to reflect their cost. Where they are not, subsidies should be plain to see to facilitate public policy debate.

d. Use marketing techniques to win support of decision makers, beneficiaries and stakeholders. Resources are obtained either by selling outputs to finance inputs or by government finances. The former method (direct sales) requires the production of outputs that are highly valued by customers. The latter method (government subvention) requires the production of outputs that are sufficiently valued by beneficiaries so that they create political benefits for decision makers. In this way, it is politically rational for the government to continue funding the production of those outputs.

e. Develop human resource training consistent with sustainability goal. Training is central to sustainability: nationals must acquire the expertise of the foreign experts to minimize dependency; institutional development and organizational improvement require acquiring new managerial and productive technologies; and, sustainability requires that processes for replacing, training and upgrading personnel become institutionalized.

III. Implementation**COMPARISON OF
IMPLEMENTATION ISSUES****Conventional**

1. How to get new activities started.
2. How to meet scheduled performance and cost targets.
3. How to demonstrate efficiency and effectiveness.
4. How to stop because of poor implementation.

Sustainability

1. How to get activities started in ways that build capacity and long-term support?
2. How to stay open/flexible to new opportunities that are responsive to long term market demands.
3. How to demonstrate cost recovery and long-term benefits support.
4. How to divest because benefits will not be sustained.

Implementation that enhances the prospects for sustainability requires looking at the complementarities and tradeoffs between short-term performance to meet planned targets and long-term capacity to maintain production of benefits. Actions taken to speed implementation performance in the short-term risk bypassing capacity creation and thus inhibiting sustainability. Implementation is the phase in the investment cycle where the tendency to focus on contractual performance to the detriment of long-term impact is strongest.

A. Implementation Phase: Sustaining Responsive Output Flows**1. Issues:**

- a. How can activities be started up and carried out in ways that build capacity and long-term support?
- b. How can performance targets and capacity building objectives be attained?
- c. How ought outputs be adjusted in response to reactions from beneficiaries and stakeholders?

2. Guidelines:

a. Initiate implementation with a "project launch" workshop (or workshops) that brings together implementors, stakeholders, and beneficiary representatives to review and discuss: project/program objectives and performance targets, implementation arrangements and division of responsibilities, and sustainability concerns. Such workshops are opportunities to publicize the activities to be undertaken, reaffirm and build implementor commitment, develop realistic plans, and demonstrate backing from national and/or local level decision-makers.

b. Experiment with different mixes of outputs, modes of production, marketing, and so on. Short-term success may be achieved with "off-the-shelf" methods implemented widely with minimal adaptation, but sustained long-term effectiveness requires experimentation and specific attention to learning. Maximum leeway should be allowed for experimentation in different contexts while extra resources are available. This trial and error is especially important for public-private sector collaboration to deliver services, where actors in the two sectors need to learn about each other to work together effectively. Some failures will occur, but successful models will also be discovered and adopted. Early stumbling will be made up for by higher effectiveness later on.

c. Encourage local responsibility for operation and maintenance of the investment using market-driven mechanisms. This has two dimensions. The first, which has to do with open markets, is decentralization or privatization to place output production "close to the customer," where it can meet demand most efficiently. The second, linked to open societies, is monitoring and surveillance of output flows by beneficiaries, coupled with feedback to producers and funders. Options here include: referenda, "town meetings," advisory groups, users' associations, direct ownership, and so on.

B. Implementation Phase: Sustaining Cost-Effective Delivery Mechanisms

1. Issues:

a. How can institutions (public or private sector) be encouraged to stay open to, and respond flexibly to, new opportunities and threats?

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b. How should the shift in incentives be handled, as the project or program moves from the investment to the post-investment phase of implementation?

2. Guidelines:

a. Continue with the strategic planning suggested for design. This process could be applied to activities such as monitoring to detect changes that affect the long term functioning of the activity, decision-maker and stakeholder analyses, market research, problem-solving task forces for long-term effectiveness, networking, marketing and lobbying, publicity and promotional events, and periodic redesign to adapt to changes.

b. Encourage decision makers in implementing organization(s) to maintain interorganizational coordination during investment phase-out. The post-investment period can be very disruptive to sustaining implementation progress. The "halo" of donor attention fades, host country priorities may change, responsibilities and staff may be reassigned, the extra resources that motivated and enabled organizations to cooperate are no longer available, and interorganizational jealousies or turf battles may re-emerge. Incentives must be provided and commitments obtained for continuing interorganizational cooperation.

c. Build capacity for implementation that will be needed during the post-investment period. This requires a responsive institutional setting that is preferably self-financing in nature.

d. Make sure that successes in contracting out to the private sector or obtaining local participation are publicized. This will increase decision-maker confidence in privatization, and also will encourage the kind of demand-making by citizens that makes democratic institutions operate effectively.

e. Monitor implementor personnel practices to assure the following. First, staff should be recruited for long-term operations (if new positions need to be created, this should start early in implementation). They should be nationals if possible. (Should too few nationals be qualified, training needs to be undertaken). Second, the skills should be appropriate for the tasks involved (e.g., direct management of service production is different from managing contracting-out systems). Third, staff should have incentives that encourage market-driven performance (e.g., feedback from beneficiaries, portions of salaries tied to outcomes, recognition for successes, etc.).

C. Implementation Phase: Sustaining Adequate Input Flows

1. Issues:

- a. How can the capacity to recover costs be shown to exist?**
- b. How can local and private sector participation be assured during implementation and into the post-investment period?**
- c. How can it be assured that the skills needed to manage costs and resource flows, both from the public and private sector sides, are available for the long-term?**
- d. How can private sector and market orientations be introduced into public policy dialogue?**

2. Guidelines:

- a. Link continuation of donor funding to phased-in assumption of recurrent costs (specified in PILs). Determine if the budget makes realistic assumptions about recurrent costs. Tranche budgets annually with amounts determined by progress to date on assumption of operating costs.**
- b. Develop capacity for recurrent cost identification, management, and collection during implementation (do not assume it will happen automatically in the post-investment period just because the ProAg says so). Push implementors to undertake studies to determine what their recurrent costs are by program or output (the line item public budgets of most developing countries are useless for this). Encourage pilot-testing of users' fees. If services are perceived as useful and relevant, experience shows that even the poor are willing and able to pay.**
- c. Once implementation start-up is well underway, advise implementors to set up management systems that are appropriate for the mix and level of resources likely to be available over the long term. In the urge to spend funds when they are available, implementors tend to overlook maintenance, renewal, and upgrading.**
- d. Raise policy issues about resources and incentives early in implementation and set up an ongoing dialogue with host country stakeholders and implementors over the life of the investment. Examples of important issues are: tax reform, legislation supportive of the private sector (including local and informal), earmarking of revenues for specific purposes, users' fee policies (e.g., returning**

revenues to the agencies collecting them rather than to the central government account), and budget transparency and "sunshine" legislation.

III. Evaluation

COMPARISON OF EVALUATION ISSUES

Conventional

1. What implementation progress and why?
2. What implications for project redesign?
 - . What to change to accomplish outputs on time?
 - . How to phase out efficiently?

Sustainability

1. What sustainability progress and why?
2. What implications for project redesign?
 - . What to change to increase benefit continuation following the project?
 - . How to phase continuing activities into permanent institutions?

Evaluation of investment sustainability prospects differs from assessment of implementation performance and achievement of planned outputs. Sustainability evaluation targets the three dimensions of sustainability (responsive outputs, cost-effective delivery mechanisms, and adequate resources) to focus the attention of decision-makers on what needs to be done to increase the chances for sustaining development benefits as the investment period draws to a close, and the post-investment period begins. Evaluation differs from the rest of the project cycle in that it is not a sequential step but is done periodically throughout the other phases--both formative and summative, during the investment and post-investment periods. Evaluation of project sustainability will be most effective if it does not wait until the investment period ends. Assessment should begin two or three years earlier, as input to conducting extended planning for post-investment activities.

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A. Evaluation Phase: Sustaining Responsive Output Flows

1. Issues:

- a. What progress has been made, and why, in producing outputs that respond to market forces?
- b. Will the type and level of inputs needed to produce outputs, their sources, and so on, change in the post-investment period?

2. Guidelines:

- a. Augment standard evaluations with other studies that assist sustainability; such as market research, decision-maker and stakeholder analyses, analysis of problems with the political/bureaucratic environment, quality improvement analysis, and privatization analysis.

B. Evaluation Phase: Sustaining Cost-Effective Delivery Mechanisms

1. Issues:

- a. How can new institutions be made permanent, and responsive to market forces and changes in beneficiary needs?
- b. How can ongoing functioning of public-private partnerships be assured?

2. Guidelines:

- a. Institutionalize strategic planning so it carries forward during the post-investment period. Often the AID Mission has taken the lead (or provided the impetus) for strategic planning during implementation; evaluation offers an entry point to push host country institutions to assume leadership for this function.
- b. Target evaluation specifically on the public-private sector interface. Consolidate the publicity generated during implementation with more in-depth analysis. Encourage the use of evaluation results as input to policy analysis for further privatization.

C. Evaluation Phase: Sustaining Adequate Input Flows

1. Issues:

- a. How can dependency on foreign inputs be reduced, while assuring that resources are sufficient to allow benefit continuation in the post-investment period?
- b. How can changes to increase returns on investment be made.

2. Guidelines:

- a. Building on the recurrent cost identification and management capacity created during implementation, help host country institutions develop a recurrent cost strategy. There should be sufficient time allocated for a smooth transition to post-investment operations. As mentioned above, a sustainability review ideally should begin two to three years prior to the termination of external funding; the minimum start-point for the process is one year before termination. Attention to maintenance, renewal, replacement and upgrading should be built into review and planning.

CONCLUSION

Applying the guidelines should be seen as cumulative, building over time throughout the investment and post-investment periods. If, at the end of each phase the conditions for sustainability are not met, stop, go back and re-design if necessary. Continuous review is required to see that the pre-conditions favorable to sustained impact continue to exist at every phase of the development investment cycle.

Although few of the issues and guidelines presented here are new, the present synthesis organizes current sustainability knowledge and experience in an integrated, results-oriented way, with additional insight gained from the applied research findings. The guidance applies to ongoing development assistance projects, and incorporates important dimensions of new policy directions that focus on market-led programs. Based on a review of the literature and an empirical base, it highlights the lessons learned that apply across sectors.

The systematic presentation of the issues and guidelines is designed to help project officers organize the issues and look critically at the long term impact of AID investments, and the policy and institutional requirements necessary to improve the chances of long term success.

ANNEX

SOURCES AND ADDITIONAL READINGS

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