



**Review of Sustainability Analyses**  
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# REVIEW OF SUSTAINABILITY ANALYSES<sup>1</sup>

## Introduction

The lack of long-term staying power of development projects and programs is a well recognized problem that has received considerable attention over the past several years. Different studies have adopted somewhat different definitions of "sustainability" but all convey the idea of putting in place or setting in motion a process that continues to provide desired benefits once external donor funding ceases. All of the studies attempt to examine the success or estimate the probability of the long-term, continuing generation of benefits beyond the investment phase of the effort. Without exception, all recent analyses support the view that far too many development efforts fail in this regard.

The purpose of this annex is not to come up with a definitive estimate of the sustainability of the present A.I.D portfolio, but to review findings of recent studies that shed light on the size and nature of this complex problem. These findings point to two major conclusions: a relatively small proportion of donor projects have been found to provide lasting benefit streams beyond project assistance; and, too many projects focus on the short-term implementation of a set of defined activities and do not incorporate a long-term perspective that emphasizes putting in place financially sustainable, continuing initiatives.

## Review of World Bank Evaluation Studies

One of the first studies on sustainability was conducted by the World Bank in 1986 (World Bank 1986). In that study, projects were classified as "sustained" if the re-estimated economic rate of return five years after project completion was greater than or equal to the ERR calculated at the completion of project implementation. Only nine of the 27 projects reviewed were classified as sustained, eight more as "doubtful" and the remaining ten were not sustained.

A further World Bank study (World Bank 1990) of 557 projects audited during the 1986-88 period classified projects according to their likelihood of being sustained. Of the total, 52 percent were rated as "likely," 15 percent as "unlikely," 9 percent "marginal," and 24 percent "uncertain."

## Review of A.I.D. Evaluation Studies

A 1988 A.I.D. study (Kean, Allen, et al. 1988) of 212 evaluation reports from FY 1985 and FY 1986 used a broader definition of sustainability and reported even more alarming results. Twenty-six percent of the projects earned strongly negative ratings, 56 percent got marginal marks, and a mere 11 percent of the projects were considered to have strong prospects for being sustained after the termination of U.S. assistance. Similarly, a 1989 review (Hopstock, Kellum & Young, 1989) of 287 evaluation reports from FY 1987 and FY 1988 reported that fully 36 percent highlighted sustainability concerns in their analysis.

An in-depth analysis of 71 AID impact evaluations carried out by the International Development Management Center of the University of Maryland (Finsterbusch, Mausolff & Van Wilkin, "Factors Contributing to the Effectiveness and Sustainability of Development Projects," 1992) rated 21 percent to be unsustainable, 31 percent moderate, and 48 percent sustainable.

Many of these projects were initiated in the early 1980s and so reflect a different project mix than the current AID portfolio. Nevertheless, more recent evaluations present a similar picture and highlight the fact that sustainability concerns are often overlooked altogether. A Review of the Quality and Coverage of A.I.D. Evaluations, FY 1989 and FY 1991 was undertaken by Management Systems International in 1992. In this review, sustainability was "used primarily to connote the continuation of projects and hence their effects." Of the 268 evaluations examined,

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<sup>1</sup> This paper was written by Dan Gustafson at the International Development Management Center (IDMC) at the University of Maryland in September, 1992. It was originally written as an annex to the Project Identification Document for the BSUSTAIN project, a proposed Asia-regional project focused on sustainability management. The Asia Bureau decided in February 1994 to hold funding for this effort until the FY96 funding cycle.

116 (43 percent) intentionally assessed the sustainability of projects or programs. The study notes that this is an improvement over the 34 percent found in the FY 1987 and FY 1988 review, but remains a relatively small percentage. Had sustainability been a major concern it is assumed that it would have been discussed in the evaluations. The fact that it was not addressed in more than half of the evaluations suggests that it was not a major concern. The empirical work of the International Development Management Center on sustainability over the past four years demonstrated that sustainability does not simply result from good project implementation. Lack of explicit attention to the incentives and mechanisms needed to sustain benefit flows after project assistance ends almost inevitably leads to low sustainability.

The MSI review team coded the evaluations with respect to the probability that projects were wholly or partially sustainable, giving scores of high, medium, and low. Two important observations stand out from this analysis: 1) the number of projects with a high probability of being sustained is very low, and 2) there is a clear differentiation between performance in meeting project objectives and sustainability.

With regard to having some benefits continue after A.I.D. funding stops, only nine percent were given a high probability rating, and another 14 percent were given a moderate probability. With regard to having all benefits continue after A.I.D. funding, only two percent received the high probability rating, and another six percent the moderate probability rating. Fifty-four percent of the evaluations did not address the issue of some benefits continuing, and 72 percent did not address the issue of all benefits continuing.

In addition, in 52 percent of the evaluations that concluded that project purposes were being achieved, the question of whether benefits would continue after A.I.D. assistance ends was not even addressed. Moreover, of 44 final evaluations where teams concluded that projects would partially or completely achieve their purpose, only 18 percent were judged to be highly sustainable. Clearly, there is a significant divergence between the concept of a project achieving its purpose and the sustainability of project benefits that reflects the absence of a long-term, post-investment sustainability focus in

many projects.

Similarly, a review of all CDIE evaluation summaries since 1988 that contained the word "sustainability" was carried out in preparation for this annex. This set includes audit reports, interim evaluations and final project reports and reflects more recent (and often ongoing) experience. For 122 of these projects, the reference to sustainability was straightforward, usually expressing a strong positive or negative judgement, allowing classification into high, medium, and low sustainability categories. Although this set does not include all projects, it is indicative of what evaluations are saying about the sustainability issue over the past several years when sustainability has been a highly visible issue.

Fifty-five percent of these projects were in the low sustainability category, and only 19 percent in the high sustainability group. For Asia, the numbers are somewhat better. Of 31 projects, 10 (32 percent) were given high marks for sustainability, while 12 (39 percent) were classified as having low sustainability prospects.

The statements describing the sustainability of the projects reflect the seriousness of the problem (all examples taken from Asia projects):

"...the sustainability of AID financed capital investments eventually totally more than \$83 million has yet to be assured."

"...there is no assurance that activities will be completed or accomplishments replicated after project funding is terminated. In fact, sustainability is highly unlikely."

"...the project was never able to cover indirect management costs, and it is not clear that it will be able to cover these costs even with support of the Foundation."

"Without continued USAID support, it is unlikely that either station will be sustained."

"The project has made little or no discernable progress in institutionalizing a routine maintenance program."

"The Mission has not planned for sustainability of

successful projects, nor have the grantees prepared plans or provided additional funding to ensure that project efforts will be continued."

There are, of course, positive examples as well, and the Asia projects contained the highest proportion of high sustainability references-- most dealing with innovative financial mechanisms or arrangements. Nevertheless, these summaries read like a litany of sustainability tales, poor investments, and lost opportunities to make a lasting impact.

### Asia Bureau PIR Analysis

The results summarized above should not be surprising to anyone connected with A.I.D. programming, and sustainability concerns have become part of the checklist of issues that missions must address in planning and reporting. Although awareness of the problem is higher than it was previously, how to correct it remains a serious issue. This aspect was highlighted in a February 1992 analysis of Project Implementation Reviews of four Asia Missions (Bangladesh, India, Nepal, and Sri Lanka).

This study took the analysis one step further in examining not only the extent to which the projects incorporated long-term sustainability concerns, but also the extent to which financial sustainability was addressed through emphasis on market-driven approaches. This reflects the view that sustainability needs to be addressed explicitly in project design and implementation, and that the most effective way of ensuring financially sustainable development is through the application of market-oriented mechanisms for the provision of goods and services, within a conducive policy and regulatory framework.

The PIRs were reviewed with respect to the extent that the purpose statement mentions or reflects sustainability; the extent that the purpose indicators incorporate long-term sustainability criteria rather than focusing only on LOP implementation indicators; the extent that the project concentrates, at the output level, on building long-term financial viability; and the extent that the project targets institutionalization of the mechanisms for replication of the process initiated with project support. The projects for which financial sustainability was applicable were then grouped into four categories:

- Type 1: Older projects with two to three years to PACD that have little or no sustainability components. The decision option in this case would be to phase out or restructure.
- Type 2: Newer projects designed with little or no financial sustainability concerns, typically targeting public sector institutions. The decision option in this case would be to redesign.
- Type 3: Newer projects designed with sustainability more in mind, often targeting support of NGOs or private sector enterprises, but that do not address how financial sustainability will be achieved. The decision option in this case would be to reorient the projects to address concrete actions to promote financial sustainability.
- Type 4: New projects that target enhancing the ability of the private sector to provide goods and services (e.g., policy reform, services, and the privatization of SOEs), that may or may not need more attention on sustainability.

Ninety-six projects were analyzed, of which 43 were deemed to have little or no financial sustainability applicability (e.g., disaster relief). Of the remaining 53, 28 were judged to be type 1, two to be type 2, 11 to be of type 3, and 12 to be of type 4.

Based on this analysis, the study concluded that:

1. There are widely varying definitions of sustainability (both among missions and among projects) and the different ways that missions approach this objective. A common understanding and approach is needed for the Bureau.
2. A number of older projects that were designed without attention to sustainability, and that concentrate on public sector institutions can be redirected to a private sector focus. There are

many, however, that offer little room for practical reorientation and the best option is simply to phase them out.

3. Many newer projects incorporate sustainability concerns, but more attention is necessary on making financial sustainability objectives operational. How this will be achieved through what practical steps is often very sketchy.
4. Work is needed on ways to stimulate private sector interest (terms and conditions, types of attractive partnerships, critical regulatory and policy issues) and on transactions brokerage.

### Validation of Financial Sustainability Concept and Findings in Recent Field Visits

Following the PIR analysis, site visits were conducted to Nepal, Sri Lanka, and Thailand in early 1992. Workshops were held in Nepal and Sri Lanka and a number of projects and programs were reviewed, including the SIRE project in Nepal, the MED, MARD, and ISM projects in Sri Lanka, and the new "Transactions Strategy" in Thailand. The visits were highly successful, were very well received by field staff, and validated the findings and utility of the FSD approach. In a short time, the team was able to heighten awareness of mission staff, identify candidates for additional financial sustainability attention, and demonstrate how to incorporate financial sustainability considerations into several new or ongoing projects.

Based on the discussions with the missions, the team concluded that the Bureau's approach has immediate face validity with Mission staff, although they indicated that the existing material on sustainability was not targeted sufficiently to financial sustainability considerations and practical mechanisms, including innovative approaches involving private sector partnerships. The team also found that there is much to learn from USAID Mission experience and experiments; each Missions is doing some innovative, successful FSD work. There is an immediate demand on the part of users for operational financial sustainability mechanisms, including the need for workshops and training. Field staff believe that short term technical assistance is an effective way to respond to this demand, and should include the transfer of skills and concepts

through action-oriented workshops, learning what is working on the ground, and the transfer of innovative technologies used by other missions or other donors.

### Conclusion

- No simple formula exists for calculating a "sustainability index" of the current A.I.D. portfolio. Given the evolving project and non-project assistance mix, the rating of a given portfolio of old and new projects lessens the importance of a single reference point, even if that were possible. Nevertheless, all studies point to the fact that sustainability remains problematic and inadequately addressed, and their finding provide concrete evidence of the magnitude of the problem.

The highest estimate of any of the studies rated only half the projects examined as sustainable, and this was the World Bank study that used economic rate of return as the indicator -- a poor measure of financially sustainable development. For the A.I.D. studies, if it is assumed that the a high percentage of evaluations that do not address sustainability reflect projects with poor sustainability prospects, the estimate is much lower. For example, 18 percent of those evaluations that addressed sustainability concerns (less than half of the FY 1989 and FY 1991 evaluations) and that achieved their purpose were judged to have a high probability of being sustained. This compares with the eleven percent figure of the 1988 evaluation study.

More optimistic numbers come from the two recent analyses of Asia Bureau projects. About a third of the evaluations that mentioned sustainability were considered highly sustainable. In addition, the PIR analysis found that about one-quarter of the applicable projects seriously address financial sustainability. Based on the evidence, the best estimate for the current Asia Bureau portfolio would be that somewhere around one-quarter to one-third of the projects will result in sustainable benefit flows. In other words, current performance is inadequate; it results in poor Agency resource use and more importantly, does not lead to genuine, self-reliant development.