

FAR-FETCHED FACTS

A Parable of Development Aid

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translated by Allison Brown and Tom Lampert

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1 The Solid Ground of Development Policy

Preliminary Remarks : Edward B. Drotlevski

The architecture of the lobby at the Normesian Development Bank (NDB) led me straight to a bulletproof-glass reception booth. Without a word a form was pushed through the narrow slot of the receptionist's window and, as instructed, I wrote down my name, my institutional affiliation, and the person at the NDB with whom I wished to speak. The receptionist announced me over the telephone as Professor Edward Drotlevski from the University of Urbania and then indicated that I should be seated in the Bauhaus-style black leather suite across from the booth.

A triptych on the wall high above the leather chairs caught my eye. It depicted an African landscape with rhinoceroses radiating an irrepressible vitality. As the rooms in this building were dedicated to reflection about Africa, I found myself asking the following question: How do these wild African rhinoceroses correlate to the modern disciplining of the African continent? Later I learned that there had been an exhibition of five young female artists entitled "Investigations: Women Paint Africa" in the NDB building between September 9 and October 11, 1992. Several of these paintings, including the triptych, now decorated the rooms of the bank. At the exhibition opening, a high-ranking bank representative had declared that the bank, like the artists, was engaging in investigations of Africa. In this regard, he continued, the bank had distinguished itself from colonial rulers, who had attempted to impose a foreign order on Africa. As I contemplated the massive painting, I thought about the different alternatives that might have been used to decorate the lobby—aerial photographs of a colossal dam, for example, or a new and shiny water processing plant? No, in 1997 it was no longer appropriate for the NDB to drape itself in such images.

The director of the sub-Saharan Africa division, Dr. Johannes von Moltke, was sitting in a dauntingly spacious room with a long window front that extended all the way down to the luxurious carpet and faced out onto a quiet side street. The exclusive office was virtually empty. Instead of shelves filled with files and books, the walls were covered with abstract paintings. We sat down at the large conference table, and I was allowed to turn on my Sony tape recorder. The conversation gathered momentum quickly and easily. Despite the fact that it lasted more than two hours, we were not interrupted by telephone calls. The fact that von Moltke had his secretary hold all incoming calls was an obliging gesture of recognition for his interlocutor. Von Moltke's own remarks were so clear and systematic that I have decided to let him speak for himself here.

NARRATOR : JOHANNES VON MOLTKE

Location : Urbania, Normland

Date : July 14, 1997

The Project within the Framework of Development Policy

The chief business of the Normesian Development Bank (NDB) is so-called financial cooperation (FC). The objective of FC is to facilitate access to the *production potential* of developing countries by making capital available. This usually means rehabilitating and modernizing preexistent facilities and infrastructures, which is presumed to be possible given the necessary capital. As a state bank, however, the NDB must also avoid taking market shares away from commercial banks, since that would undermine its own goal of promoting private-sector development. Our loans are so-called soft loans, which can assume different forms depending on the country and the respective development measure. In some cases there is a ten-year grace period followed by forty years of repayments at an interest rate of 0.75 percent. Countries classified as "least developed" receive grants only. According to a Normesian distinction, in addition to FC there is also so-called technical cooperation (TC). TC aims to raise the *performance of human resources and organizations*. The Agency for Overseas Development (AOD), which is far better known both domestically and abroad than we are, is responsible for TC.

The water supply project in Ruritania is conceived as an accompanying measure of a larger investment. It has a budget of three million dollars and is financed from a special fund of the Ministry for Development Cooperation (MDC). This special fund serves to support basic and further training world-

wide and is utilized as an aid grant so that neither interest nor amortization payments accrue. The aims of the accompanying measure correspond to the MDC's present conception of development policy. This conception is based on the following insight, which is now generally recognized worldwide in light of the failure of dirigiste socialist models: A market-oriented socioeconomic order and a social system geared toward citizen participation in the political process offer the best prerequisites for humane development.

The drinking water supply project for the three regional capitals—Baridi, Mlimani, and Jamala—has been conceived precisely with this in mind. First of all, the project is designed to decouple the waterworks from the Ruritanian regional administration and bring it closer to the city residents through a new organizational structure. Second, the project aims at subjecting the production of water as a public commodity to a regulatory regime that will facilitate commercial operation. The project continues to follow the model of globally sustainable development through productive economic growth, social justice, and environmental sustainability.

The *economic growth* of a city is fundamentally dependent on a well-functioning infrastructure. This requires, first and foremost, a reliable and affordable supply of high quality water for private households as well as for commercial companies and industries, not to mention hospitals, schools, and public institutions of all kinds. But sustainable and sound economic growth also requires that a waterworks can be permanently maintained economically and technically, and if necessary even expanded, through its own revenue. Above all, stable economic growth means avoiding dirigiste distortions that would undermine market economy regulation methods and lead to an economic disaster, as Ruritania has recently experienced. At the end of Ruritanian socialism water was virtually free of charge, but it hardly ever flowed.

With respect to the development policy goal this means in concrete terms that the price of water has to correspond to the actual production costs that accrue in a certain area. This is the only way to guarantee that a city's growth rate remains reasonable relative to the natural, technological, and economic options for the water supply. What should be avoided are subsidized water prices that allow cities whose water system production costs are relatively high to expand at the same pace as cities with lower production costs. Especially when industry is brought in, the price of water should have a regulating effect. Since a municipal waterworks is a natural monopoly, it is also important to guarantee that only the really necessary expenses, but not the organization's inefficiency, contribute to the production costs. In

the absence of real market mechanisms, intelligent regulatory mechanisms that effectively monitor the economic efficiency of the monopolist must be introduced to this end. That is the goal of our project.

The project will also effectively promote a second major aim, *social justice*. As long as the charges for water remain below the actual water price—that is, the production costs including the facility write-off—the arrangement will require that ensuing uncovered costs be paid by other state resources. However, since the main source of Ruritanian tax revenue is agriculture, the old, low, and therefore socially acceptable water rates in Ruritanian cities could more accurately be referred to as transfer fraud. If subsidies based on socio-political considerations continue to be necessary in the future, they must be justified on both economic and political grounds. This presupposes the correct assessment of the necessary production costs from an economic and technical standpoint as well as transparent organizational structures that allow us to determine where specific subsidies went and why, and what has to be considered in the future in order to eliminate the need for them.

The project also contributes to greater social justice in another respect. Since 1991, when tap water was de facto no longer supplied to Ruritanian cities free of charge, debate about the payment morale of customers and the payment collection rate of the waterworks has become increasingly heated. According to the data available, less than half of all customers pay their bills at all. That means that nonpaying customers indirectly exploit paying customers. For this reason the project is seeking to raise the collection efficiency of the waterworks in Baridi, Mlimani, and Jamala to ninety percent.

The long-term economic rehabilitation of the waterworks will ultimately enable them to appropriately renovate and possibly even expand their pipe system and their production capacities. The ability to make replacement investments from their own revenue means that the present generation will not operate the facility at the expense of future generations. Self-financed expansions would benefit especially those districts of the city whose infrastructures are neglected and which are usually inhabited by people from the poorest strata. A locally oriented, commercial operations model would encourage city residents to acknowledge the waterworks as their own property worthy of protection and therefore to treat it with due care.

The third major aim of Normesian development cooperation directly addressed by the project is *environmental sustainability*. The most effective protection against wasting water is to charge money for it, to collect payments consistently, and to combat illegal taps. The planned commercialization will

also put the waterworks in a position to pay the responsible authorities the groundwater fees that are now due in Ruritania. The River Basin Authority was established with European support in order to develop general proposals for conserving water in the area and facilitating a meaningful balance between various water uses (energy conversion through hydroelectric power plants, agriculture, animal husbandry, and drinking water).

The History of the Project

In the 1970s and 1980s, the municipal waterworks were part of the regional governments and were affiliated at the same time with the water ministry in the capital Baharini. Even if this administrative structure did not make any sense, it did not seem appropriate at the time to address this issue within the framework of the FC project. Nor did it appear to be the right time to broach the issue of project execution in any fundamental way. It was simply accepted that the central water ministry was the project-executing agency and thus bore responsibility for construction measures in the waterworks of the regional capitals. In any case it was assumed that the issue would be approached from technical and public health perspectives and that economic and administrative policy perspectives would be factored out as much as possible. Everyone was aware at the time that none of the Ruritanian waterworks produced sufficient revenues to cover their own operating costs, but this was not an issue in development cooperation in the early 1970s.

An application by the Ruritanian government in 1969 initiated the first project, “Jamala Water Supply.” After the usual inspection process with numerous modifications, the first loan agreement for 6 million dollars was reached in 1973. Cholera epidemics broke out in Jamala in the early 1970s as a result of catastrophic conditions in water supply and sewage treatment. Thus the project undoubtedly served a concrete, legitimate goal. By fall 1976, project funds had been increased to 24 million dollars. From an engineering standpoint the project addressed the root of the problem: In order to improve water supply, first there has to be water. For this reason the project focused on the groundwater extraction system. The existing system was ancient and ramshackle—it dated from the colonial era—and was located right in the middle of Jamala due to the urban expansion. As a result, the groundwater was contaminated by cesspools and the broken-down sewage system. Within the scope of the project a reservoir, a pumping unit, and a

water processing plant were built outside of the city, and a water pipeline was connected to the distribution tanks located in the hills on the outskirts of the city.

When the new water extraction and conveyance plants went into operation in Jamala in December 1978, it became evident how inadequate the distribution system was. Although the system could now be filled, a rather considerable percentage of the water was lost in the network. In response the NDB commissioned a study on the condition of the distribution network and then initiated a rehabilitation program. Through a series of complications that would be difficult to reconstruct today and can be traced in part to the fact that the water ministry served as the project-executing agency, the corrective repair measures were repeatedly postponed so that the distribution network was not repaired until 1987, ten years after the opening of the water treatment plant. Owing to the relatively minor scope of the project only the most blatant defects could be corrected. An unacceptably large share of drinking water continued to be lost through leakage, and water pressure remained too low for satisfactory service. In the meantime, the first rehabilitation measures of the water treatment plant and the pump stations were already on the agenda. The investment measures now encountered the notorious problems: improper usage, irregular and improper maintenance, lack of replacement parts due to shortage of funds, and inadequate organization. At the beginning of the project studies around 1970, there were already suspicions that not only the distribution system was full of leaks, but that payment collection was itself replete with accounting holes. In 1978, this deficiency was identified explicitly for the first time as an obstacle to the success of the project. It was expected that Ruritanian officials would deal with this impediment, but this did not occur.

The second waterworks connected with the project was located in Baridi. The background here is similar to that in Jamala. Within the scope of financial cooperation, the existing water supply in Baridi was overhauled between 1975 and 1977. This plant, which is still in operation today, transports spring water from a nearby mountain into the city through the force of gravity. The plant was repaired again between 1981 and 1985. At that same time, there was exploratory drilling to investigate possibilities for expanding water supply through groundwater. "Baridi Water Supply," the main project, was finally initiated in 1982. As part of this project, an extensive field of wells below the old springs was established. In this way it was possible to develop a sound groundwater supply for Baridi to compensate for the seasonal fluctuations of the spring water, which also continued to be used. Along with diverse smaller

accompanying projects, around 20 million dollars was invested in Baridi's water supply system. Overall, investments in the water-processing plants of Baridi and Jamala have amounted to more than 60 million dollars.

In Baridi, these construction measures could only begin in 1985 because of a series of technical problems and organizational confusion. As a result of further unexpected difficulties, the new plant was not opened until 1990. As in Jamala, after the plant was opened it was discovered that the pipe system had unacceptably high water losses and the accounting system was also full of leaks.

Initially, however, there were more pressing problems in Baridi. In comparison to the old system's use of gravity, the running of the well field proved to be quite maintenance intensive and prone to failure. Power outages and voltage fluctuations led to frequent damage to the electrical underwater pumps. Finally, there was not one specialist in Baridi or even in the entire country who was able to rewind copper wire on the electric motors of the pumps. At first they had to be sent to Normland by airfreight for repairs. Later, a company was located in a neighboring country. The NDB then established a supplemental program to improve operations and a training program for electricians. People learned in the meantime to live with the voltage fluctuations and blackouts and to repair the burned-out pumps themselves.

It was ultimately discovered that while electricity prices in Baridi had risen dramatically in the time between the planning phase and the start of operations in 1990, water prices had hardly risen at all. Before the project, the waterworks had had almost no electricity costs whatsoever; now approximately seventy percent of the waterworks expenses were for electricity for the modern pumps. As in Jamala, this gave rise to the following problem: How can the waterworks equipped with new facilities survive on their own both economically and technologically? In other words, how can we ensure that the two waterworks neither deteriorate nor remain permanently dependent on development aid?

The technical improvements at the waterworks in Baridi and Jamala had been implemented entirely in terms of increasing production potential, as officially defined by financial cooperation. Given these considerations, we gradually realized that they would be condemned to failure if the project was not sensibly integrated into larger organizational changes. The interaction between two developments contributed to our insight here. On the one hand, in connection with the start of operations in Jamala in 1978 and Baridi in 1990, the financier realized that simply owing to lack of funds the investments could not be maintained and operated as stipulated by regulations.

The desired life expectancy of the plants would be dramatically reduced without improvements in the realm of bill collecting and thus in the entire realm of organizational efficiency.

On the other hand, in the twenty-two years between 1969 (when the Ruritanian government applied for the waterworks project in Jamala) and 1991 (when the NDB commissioned progress assessment inspections in Jamala and Baridi) there were several changes that affected virtually all dimensions of development cooperation with Ruritania. This period included the brief blossoming of Ruritanian socialism as well as its doleful self-dissolution. In connection with this latter development, the idea that a centralized state could plan social development lost dramatically in credibility throughout the world and was symbolically laid to rest with the fall of the Berlin Wall in 1989. With this historical break, the competition between the Communist and the Western worlds for influence over the nations of the southern hemisphere became a thing of the past, a development that considerably increased the negotiating strength of donor organizations.

But even before this, in the early 1980s, after three decades of development policy, economic and political difficulties were apparent in the poor nations of the South in the form of stagnating and sinking per-capita incomes, balance of payments and debt problems, scandalous income differences, social tensions, and serious supply problems. These facts could no longer be overlooked, and people gradually dared to point out that the problems here could in part be traced back to self-made errors in economic and social policy. Politicians responsible for development policy and the relevant government development institutions could simply no longer afford to continue with business as usual at home, where they drew their monies from tax revenues. They could no longer act as if their projects—for example, the waterworks projects in Baridi and Jamala—would achieve sufficiently positive results as ideal microworlds situated within problematic macroenvironments. It had become all too clear that the mechanisms functioned more the other way around. The mass media had already begun to focus primarily on blunders of this nature.

In light of these issues, the concept of structural adjustment was developed under the auspices of the World Bank (WB) and the International Monetary Fund (IMF) in the 1980s. The three central points to structural adjustment are: (1) dismantling state intervention into markets; (2) reducing the state and administrative apparatus to a necessary minimum; and (3) reestablishing an investment-friendly climate by paying attention to the balance of mobilizable resources to consumed and invested resources. In prac-

tical terms, this means supplementing individual projects with large-scale reform packages that transform the economic and administrative-policy structure of the country concerned. This means massive interventions in the domestic affairs of the countries of the South according to the slogan, “It is impossible to live beyond your means over the long run.” Within the framework of structural adjustment the elites of these countries were addressed as the parties responsible for executing the reform packages if they wanted to benefit from development cooperation. In general terms, loans were no longer distributed as reparations but rather in exchange for the fulfillment of certain conditions. In the language of the World Bank, “investment lending” was replaced by “policy-based lending.” The overall economic successes of structural adjustment policies in the countries south of the Sahara are obvious. Between 1994 and 1996, positive economic growth has been measured in eighteen reform countries of sub-Saharan Africa.¹

The Goals of the Project

Looking at our investments in Jamala and Baridi, we had to admit that over the course of the years the collection efficiency of the waterworks remained consistently low. However, even if this weakness had been resolved, the low Ruritanian water rates would have meant that potential revenues remained insufficient for proper operations. In addition, revenues still did not remain in the works themselves, but rather had to be paid to the ministry of finance through the regional governments. Finally, the budgets for the waterworks in Jamala and Baridi approved by the central government were consistently lower than the (already modest) sums that the works themselves were able to earn. Especially this last point meant that although NDB investments did in fact generate revenue, this was then used in part to subsidize the regional budget in other areas. As a result, Ruritanian engineers had to economize wherever possible without directly reducing the water supply. As is often the case in such scenarios, the waterworks reduced their expenditures for maintenance to the bare minimum and scaled down the operation standards below acceptable levels. Because of this, we canceled any further engagement in the water sector in 1991. This was our justification for rejecting an application by the Ruritanian government for new investment in the waterworks of the regional capital Mlimani based on the model of Baridi and Jamala.

In search of an alternative, we commissioned a sector study in 1992. This study identified the organizational environment as the reason why

our projects did not have a positive effect. The administrative policy of the entire sector was organized in such a way that any initiative or desire to reform was undermined by the fact that people charged with responsibilities and decision-making powers lacked sufficient motivation and the necessary competence. Either responsibilities tended to wander up to higher levels in the administrative hierarchy or new authorities were created in the course of reforms before the existing ones could be eliminated. Our study demonstrated how these mechanisms functioned and how they served to protect certain advantages that an entire class of civil servants enjoyed. In particular, the study indicated that there were no longer good reasons for the NDB to continue its cooperation with the central water ministry as the project-executing agency.

From a pragmatic perspective, the tangible problems of the projects in Baridi and Jamala lay simply in the fact that the plant managements did not have control over the revenues from the waterworks and that the plants suffered as a consequence. In the course of the sector study, however, it turned out that the Ruritanian legal system did allow for the waterworks to retain their revenues. According to an old law of 1965, the so-called Revolving Fund Act, the finance ministry was authorized to release administrative units from the financing system of the public sector. A revolving fund could be established for units that, according to this law, become semiautonomous in financial terms. Revenues would then flow directly into this fund, which the units could administer on their own.

Our strategy of “policy-based lending” allowed cooperation with the Ruritanian government in the water sector provided that it grant semiautonomy as outlined in the Revolving Fund Act. This occurred on July 1, 1994. The waterworks were allowed to place their revenues in a revolving fund and were authorized to use them as they saw fit—initially for a three-year trial period. After this had occurred, we agreed to participate in the water sector again.

Given our experiences with Baridi and Jamala and in accordance with the recommendations of the sector study and the new shift in direction within development cooperation, we also addressed the other end of the process. We insisted that no investments be made in hardware initially, but that first an organization improvement program be financed, which would enable the waterworks to become financially autonomous in a rational manner and to operate and maintain their plants appropriately. In doing so, we inverted the traditional approach and said: For an operation to be able to use an investment positively, it must first demonstrate that it possesses the appropriate structures and instruments.

A second change of course that we were able to push through proved to be equally important. We succeeded in shifting the project-executing agencies from the water ministry to the three waterworks themselves. This represented an effective step in the direction of structural adjustment. It allowed us to circumvent the bloated bureaucracy in favor of decentralization, thereby helping to shift decision-making authority to those institutions that actually had the competence to make such decisions. This also established the prerequisites for the population of the city to develop a sense of self-reliance regarding their own water supply plants through participation. In this way, we emphasized the logic of the market economy and contributed to making the financial cycle smaller and more transparent, thereby promoting a commercial view of water as a public good.

Another dimension of structural adjustment—and the basis of European development cooperation—is the idea that our intervention is just a way of helping people help themselves. Development aid makes sense only as a complementary extension of efforts made by the government, the institutions, and the people of the partner countries. This idea has now become so widely recognized that the Global Coalition for Africa (a high-level political discussion forum founded in 1990) and even the New Agenda for the Development of Africa in the 1990s (established by the United Nations general assembly in 1991) have declared that the issue of *self-reliance*—along with good governance and the coordination of donor support—is central to their efforts. Development cooperation can only exert a sustained effect if it is based on the active participation of the people involved. For these reasons, participation of target groups in the selection, planning, execution, and monitoring of the success of all measures is an overarching principle of Normesian development cooperation.

In the case of the basic and advanced training programs in the plants, active participation means first and foremost that plant management is willing to assume responsibility as the project-executing agency and thus responsibility for the project measure itself. To ensure that the self-reliance is firmly anchored, we have changed the contractual form of the training programs. Up to 1995, we operated in projects of this program according to a so-called *direct procedure*: As the financier and first party in the game, we contracted a consultant as a second party, whom we commissioned to implement a particular development measure for training or organization with a third party, the project-executing agency. For the project in the Ruritanian waterworks in Baridi, Mlimani, and Jamala, we chose a different contractual form for the first time in early 1996, allocating the project according to a so-called *indirect*

procedure: As financier, we provided the executing agency with the necessary means to contract a consultant itself. As financier we of course reserved certain rights of control, if only to be able to fulfill our duty of accountability to the MDC. A business management contract with the project-executing agency ensured that we would retain significant influence on the selection and conduct of the consultant. In principle, however, we have incorporated the idea of self-reliance as prerequisite for sustained development into the new contractual form of indirect allocation.

For this reason, the initial phase of the project between the end of February and the beginning of April 1996 proceeded somewhat differently than previously within the framework of direct allocation. The Ruritanian project-executing agencies, represented by the three directors of the waterworks, were now motivated as the principal and employer of the consultant to actively participate in designing the project. Insofar as the three directors played this role from the beginning with great determination and tactical intelligence, we felt confirmed that indirect allocation is the more appropriate contractual form for organizing development projects. Changing the contract also provided us with the added advantage that we are now able to operate according to the same model in all of our projects.

The logic of our work is basically very simple. Once Ruritanians agree to live in cities and to regard certain standards of hygiene and public health as necessary for human dignity, they have to maintain a central water supply and sewage systems to this end. As soon as a society arrives at this point, it is obvious that the wheel does not need to be reinvented. Instead, it makes more sense to draw the technologies and expertise from places where they already exist. If such complex and large technological systems require inexpensive loans or financial contributions from development cooperation, then joint solutions with financial backers must be found. Neither capital nor technologies can be successfully transferred if detached from their institutional framework—we are more aware of this today than when development cooperation first started in the 1960s. In addition, the need to work out joint solutions is based on the fact that the financier is accountable back home to the representatives of the taxpayers, who ultimately pay for this work. The NDB must not only guarantee that this money ends up where it is supposed to, but that it has been used in a rational and effective way.

Implementing this simple logic can lead to astonishing surprises. In regard to our water supply project in Ruritania, however, we can now say that by and large we will achieve our general goals: We have provided an initial thrust in the direction of privatization, deregulation, and decentralization in

the Ruritanian water sector. And we have provided initial aid that will enable the three waterworks to deal responsibly with investments.

End of Report by Johannes von Moltke

Afterword : Edward B. Drotlevski

After my interview with Johannes von Moltke at the NDB, I paid a visit to the Ministry for Development Cooperation (MDC) on July 21, 1997. On the first day I spoke with two ministerial officials responsible for conceptual issues of financial cooperation and on the second day with an official in charge of the Africa department. I posed a simple question to each of them: The ministry provides the NDB, as an implementation organization, with tax revenue. This money is earmarked for development policy objectives defined by the MDC. The MDC must of course assume responsibility for the implementation of these goals vis-à-vis parliament and the public. How does the MDC ensure that its policies are actually followed by the NDB? The simple answer that I received was the following: It is not the MDC's job to supervise the NDB. They resolve problems together.

My interlocutors made me feel as if my question were misguided. I was told more or less explicitly that I was one of "those old-fashioned people" who still believed that bureaucracies could be approached in terms laid out by Max Weber. Today, I was told, no one regards bureaucratic organizations as rational systems oriented around the pursuit of a specific objective, but rather as open systems. (An open system consists of a myriad of shifting interest groups that continually renegotiate their aims and are thus strongly influenced by so-called environmental factors.²) It seemed like a role reversal for me to hear this interpretation from the mouth of a ministerial official. It is perhaps possible from a scholarly perspective to speak of an open system here. From a legal and policy standpoint, however, it certainly must remain the case that formally organized practices can be controlled, assessed, and predicted.

Other passages from my interview, however, provided deeper insight into the issue of control and assessment. One official explained in detail that the personnel and finances of the MDC were hardly sufficient to execute the ministry's responsibilities properly. At the moment, he continued, there is talk about further cuts in funding. For this reason alone, it is unrealistic to believe that the MDC could examine every project in detail. Another passage of the interview addressed the issue of the NDB's distinctive "corporate

identity.” In this context, a ministerial department head voiced concern that his coworkers were not always a match for their colleagues at the NDB and as a result allowed themselves at times to be talked into making bad decisions. As he related this to me, he was unable to disguise his respect for the assertiveness of the NDB staff. In closing he even proclaimed, “I’m really a great fan of the NDB.”

In yet another passage on the substance of development policy, one of my interlocutors explained what he considered the central dilemma. We hear from all sides, he explained, that wealthy countries such as Normland should allocate a greater portion of their gross national product to development cooperation. The truth, however, is that recipient countries—especially in Africa—are already overwhelmed by the current input. Although the logic of the situation is in fact rather simple, he said, well-meaning people prefer to overlook it. For an input to lead to sustained development and not sustained dependency, the recipients also have to contribute to the process. From the perspective of financial policy, for example, any national economy can only process a certain volume of loans in a positive manner. When this upper limit has been exceeded, the results are negative. On the level of actual individual projects, we find the same pattern. If, for example, the World Bank finances the entire educational or public health sector in Uganda for two years, bringing it up to international standards, and then simply turns the reigns over to the Ugandan government, a new problem emerges. Uganda will not be able to finance this expanded system on its own, and the result will be an even greater dependency than previously. It is unfortunately the case that African governments continually commit themselves to make contributions to their own development, which they are subsequently unable to honor.

Although my interlocutors initially disputed that a problem of oversight existed, it gradually became apparent that this was precisely the issue. Principal-agent theory provides an obvious interpretive schema for this constellation. According to this theory, the relationship between a principal—in the case, the MDC—and its agent—the NDB—is always overshadowed by the fact that the distribution of relevant information is asymmetrical.³ For an agent to play its role well and to make things easier for the principal in the sense of the contract, it must know considerably more than the principal—otherwise the principal would have no need for an agent. The agent, however, can also use this discrepancy in the distribution of knowledge (which was initially desired and cannot be easily overcome) to its advantage with relatively little danger to its own position. There are two strategies to

counter the risk that an agent might not pursue the interests of its principal optimally, and these are best used in tandem. The principal introduces an adequately extensive system of oversight and attempts at the same time to cultivate mutual trust. The balance between these two strategies is in part a question of transaction costs. My impression at the ministry was that in the concrete case of the principal-agent configuration between the MDC and the NDB more emphasis is placed on establishing trust than on exercising control.