Towards An Appropriate Institutional Design Methodology

This essay consists of several papers prepared by mid-career Fellows studying at Duke University under its Program for International Development Policy (PIDP). It presents cases of failed opportunities due to the continued practice by aid agencies and their consultants – whether consulting firms or NGOs – to make use of inappropriate project design and particularly, institutional design, methodologies.

This is somewhat surprising as designers can draw on two proven methodologies:

(a) the AIC methodology (see below) publicized by the World Bank since 1980[1] and practiced by its originator, William Smith at ODII[2], and taught since 1995 under the PIDP program; and

(b) the "new" project cycle, which starts with a "listening and learning" stage during which designers and intended beneficiaries perform a joint needs assessment and diagnosis, as advocated by Robert Picciotto since 1994 when he published a celebrated article revisiting classical views[3].

To try to remedy this situation, I intend to regularly publish case studies based on PIDP Fellows' papers for my seminar on Institutional Design for Sustainable Development. In these papers they apply the AIC methodology to reflect on their own experiences in developing and transition countries. My hope is that such papers will convince those responsible for design and quality assurance in such countries and in aid agencies to always start the project cycle by focusing on the future project's enabling economic, social, institutional, and human environment, on learning from past experience within the country, establishing common purposes among key stakeholders, and forging the necessary inter-institutional relationships. In this manner, they would refrain from rushing into project design based on the "expert" model of institutional design, which consists of the mere transplantation of what had worked elsewhere, though in different times and under different circumstances.

Let me first summarize some key methodological principles. The AIC methodology is a highly disciplined approach to institutional design, which uses two perspectives:

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[1] W. Smith, F. Lethem and B. Thoolen. The Design of Organizations for Rural Development, World Bank, Staff Working Paper #375, 1980 available at www.odii.com. See also WHOLENESS: The Development of a New Philosophy and Model and Process of Organization William E. Smith, Ph.D. 2001
[2] ODII: Organizing for International Development: An International Institute. www.odii.com
[3] R. Picciotto and R. Weaving. A New Project Cycle for the World Bank ? Finance and Development, December 1994, pp. 42-44.

1. The first design perspective is **spatial** (Chart 1): the existing, or future institution must have a favorable enabling institutional/ policy environment, as it can only "appreciate" such environment since it has no (or minimal) influence over it. This dimension corresponds to the letter "A" of the methodology. Second, by using various influence mechanisms, the institution must obtain from its "influenceable" ("I") external environment those resources that are essential for its success even though it does not have control over them. Finally, institutions must consider their internal, i.e., "Controllable" or "C" environment, towards the design of which classical organizational theory models were conceived.

2. The second design perspective is **temporal**, i.e., sequential. Design must proceed in stages, starting with the "Appreciative" design stage during which the enabling environment is "appreciated", key stakeholders are identified, and hopefully common purposes among them can be established. Only then ("Influence" stage) and through a process of negotiations among key stakeholders, can the institution's (or organization's) boundaries and inter-organizational linkages be determined. Once that point is reached, the "C" or "control" stage of design can be launched, which is when one should carry out the design of the organization's internal structures, processes, action plans, and feedback mechanisms (Chart 2).

Let me now turn to the case studies, all of which make use of the above principles to reinterpret past experience.

The first case is that of a failed agricultural extension project in the Republic of Georgia, which was written by Nino Partskhaladze. As she discovered, expatriate designers made the erroneous assumption that there was an actual demand for the project's inputs, even though such inputs were antagonistic to the intended beneficiaries' values. This was due to the designers having skipped the first stage of design under the AIC methodology, which would have required them to ensure that the project sponsors shared a common purpose with the key stakeholders and that the project had legitimacy ("A" stage of design). The designers also neglected to involve key stakeholders in the design and implementation of the project's external linkages ("I" stage of design). In addition, they used a "command and control" rather than a more participative method of agricultural extension, e.g. regarding selection of demonstrator farmers and identification of farmers' priority felt needs. Finally, regarding the "C" stage of design, namely that which deals with the institution's internal environment, designers specified inappropriate staff selection criteria while ignoring local expertise, and focused the monitoring system on mere quantitative information -- as a result of which they missed some of the essential institutional and human factors affecting the project. Needless to say, it ended up in failure.

The second case, written by Inna Baida, is also from a transition country and similarly deals with an agricultural extension project --though of national scope and with

a different aid agency. As in Georgia, there seems to have been problems with both spatial institutional design and the process of design. For instance, at the "appreciated" stage of design, no common vision about the project concept was achieved as a starting point among key stakeholders. Demand was unclear: Government commitment was lukewarm and its financial support, minimal, while intended beneficiaries did not have the financial resources to substitute for public funding. Furthermore, the legal, institutional, and economic structures necessary for a market economy were generally lacking and this constituted a poor enabling environment for any investment in the sector to succeed (A environment). In addition, by neglecting to involve the key stakeholders in the design and implementation of the project's external institutional linkages (I environment) designers failed to take existing coordination structures and processes into account. As a result, the national administration felt threatened and resisted change, while other donors involved in the sector withheld their support. Finally, regarding the design of internal arrangements for service delivery (C environment) a uniform approach was adopted irrespective of local needs. And unfortunately, the only design that was responsive to such needs proved unsustainable because of the above-mentioned weaknesses in the enabling environment. Ultimately, both the country and the aid agency lost.

The third paper by Samir Nuriyev describes a project initiated by an international agency in another transition country without consulting with the key stakeholders (and thus missing their essential insights). This resulted in a poor substantive and institutional design, undermined the project's legitimacy, and the project ended up being captured by a local agency that had neither the capacity, nor the incentives, to make it succeed. And sadly to say, the agency's ex-post evaluation deliberately focused only on the project's unsustainable successes, while missing the only component that was viable in the long run and upon which a successful project could have been built.

While we do not know whether the projects' ex-post evaluation systems identified the lack of a sound institutional design methodology as a key factor in their failure, we hope that this article will help all those involved with such types of projects improve their designs in the future.

Francis Lethem
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CHART I

A PUBLIC SECTOR AGENCY'S RELATIONS TO ITS INSTITUTIONAL ENVIRONMENTS

APPRECIATED ENVIRONMENT

International
organizations

Executive
(President, Cabinet)

Neighboring countries

Laws, national policies &
regulations

Civil society

Public sector
Line Agencies

Coordinating
Ministries
(e.g. Fin/Plg)

INFLUENCEABLE ENVIRONMENT

Local communities

**AGENCY'S
CONTROLLABLE
ENVIRONMENT**
(e.g. organization's objectives,
strategies & action plans)

Regional and
local authorities

Clients, suppliers

Competitors

Labor unions

Interested NGOs,
Aid agencies
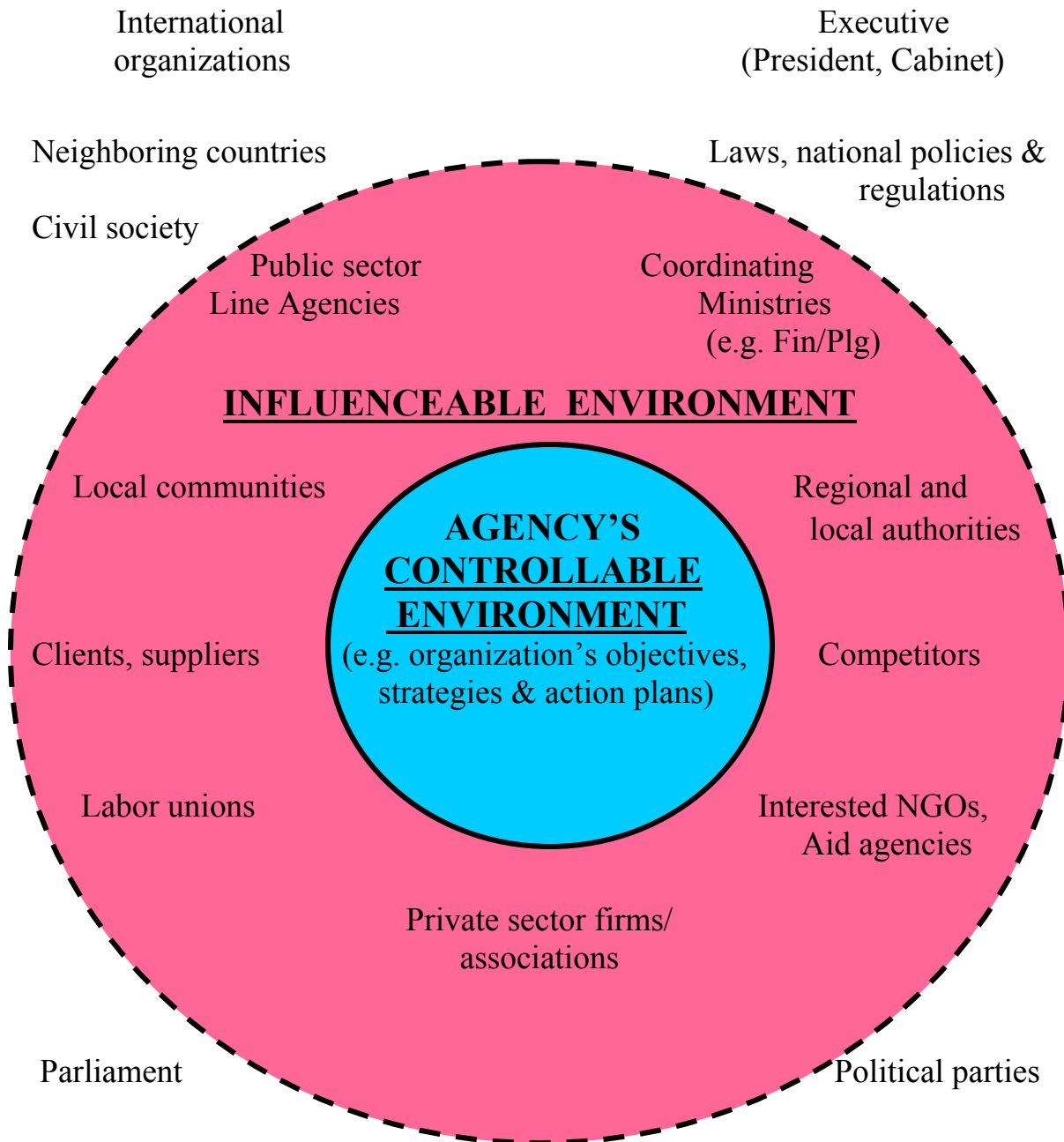
Private sector firms/
associations

Parliament

Political parties

CHART II

THE AIC INSTITUTIONAL DESIGN FRAMEWORK

SPATIAL VIEW (or "Structural" view)	DESIGN SEQUENCE VIEW (or "Process" view)
A **Appreciated/ enabling institutional environment**	**A** Appreciative stage of design • **Understand the Appreciated environment** • **Identify key stakeholders** • **Develop w/ them a consensus "vision" of a desirable future**
I **Influenceable institutional environment**	**I** Influence stage of design • **Look w/ them at constraints to achieving the vision and identify a strategy** • **Define structures; agree on linkages/ coordination mechanisms with key external entities to get necessary resources** • **Design related incentive systems**
C **Controllable/Internal institutional environment**	**C** Control stage of design • **Define internal organization** • **Prepare action plans** • **Devise learning mechanisms to improve design of A, I, & C**