Auditing Project Sustainability

By Ram Babu Nepal, Director, Office of the Auditor General, Nepal

Introduction

Developing countries launch many projects aimed at enhancing development and accelerating economic growth. As part of this effort, they receive external assistance from bilateral and multilateral sources to create infrastructure and broaden the delivery of public services. Many projects, however, have not been adequately sustained because of various factors, and thus investment in them has led to fewer positive results. Therefore, ensuring sustainability is a very important management function, and evaluating project sustainability becomes especially important in managing development efforts.

Definition of "Sustainability" and "Evaluation"

"Sustainability" is the capacity to sustain a desired level of output or service for an extended period. It is the ultimate test of development efforts. It requires not only that a particular project achieves its objectives during the project life but also that the benefits it generates continue beyond the time of the donor's involvement and continue despite technological changes. Project management must have adequate technology and financial and administrative arrangements to achieve sustainability and gradual economic self-reliance.

An evaluation is an assessment, as systematic and objective as possible, of the design, implementation, and results of an ongoing or completed project, program, or policy. It aims to determine whether (1) project objectives have been met, (2) objectives have been met efficiently and effectively, and, (3) the project is sustainable. Evaluation provides useful information that enables the incorporation of lessons learned into the decisionmaking process to benefit both recipients and project management.

Indicators of Sustainability

Performance indicators are essential for evaluating any project. Examples are as follows:

- generation and distribution of benefits;
- ability to maintain the flow of benefits, including competence of local or project beneficiary organizations;
- accountability or management relationship system to support mutually reinforcing project activities;
- changes in quality of life of project beneficiaries;
- continuity in the socioeconomic well-being of target population and ability to change;
- capacity to ensure enhanced productivity by adopting changes in technology and management systems; and
- a system to ensure equitable distribution of incremental project benefits.

Factors Influencing Sustainability

Sustainability depends upon various interrelated factors as explained below.

Government Policy

Development projects must operate within the context of national development policy, and government policy greatly influences sustainability. Government usually expresses its strong support for new projects in the course of planning, but during implementation often fails to provide adequate operational support, which results in cost and time overruns. Therefore, an evaluation must include the extent and the scope of government support, including budget, foreign exchange, debt management, product pricing, personnel management, private sector and beneficiary participation, etc.

Management and Local Participation

Appropriate administrative procedures, management leadership, and participation of beneficiaries are essential. Leaders are responsible for shaping policy for technological applications, setting goals, and mobilizing support from associated parties. The prospects for sustainability improve when project objectives match well with administrative capability and keep pace with project dynamics.

Most skilled and experienced employees transfer to new projects that attract more attention because more resources have been devoted to them, leaving the operational responsibility of completed projects in the hands of people who either are less efficient or could not secure adequate support from higher authority. This leads eventually to less inspiration to maintain the minimum level of performance. Inadequate attention toward ensuring efficient systems of project management and mobilizing local participation can paralyze the operation of activities that are essential in enhancing sustainability.

Financing

Sustainability depends on a flow of enough funds to cover operations, maintenance and depreciation of real assets, investments, and continuation of project benefits. Most projects face critical problems related to a flow of funds mainly because of unreasonable pricing policies, lack of competitiveness, and ineffective supply systems. Generally, products and services are priced too low. Projects must generate revenue adequate to justify continued government support in meeting annual operating costs amidst a growing demand for an incremental budget.

In the case of Nepal, most projects tend to overrun their cost and time estimates, which directly affect pricing of products or services. But because of various seen and unseen factors, increasing the prices is very difficult. Charging user fees may be a desirable means of shifting the burden of operational costs from the public purse. It also is an incentive to improve product quality and credibility of services; both are vital in the current business and economic environment.

Technological Factors

Choosing the appropriate level of technology is essential for both the financial and institutional capabilities of the nation and program goals. If sophisticated technology is adapted without considering the projects' financial and technical capabilities, production will be obstructed and product services of acceptable quality will not be available at the right time and at reasonable costs; ultimately the technology will be unused.

Social and Cultural Values

Fostering a sense of ownership among communities as they view their institutions is essential to promote sustainability. Projects must consider social and cultural values of beneficiaries so that the project can mobilize adequate support for marketing products and services and preserving physical structures. Proper attention to social and cultural factors will help mobilize public support and ensure a lasting impact.

The Environment

Environmental issues—population pressures, mismanagement of productive resources, unplanned settlements and negligence in the use of national resources—also affect sustainability. Developing countries, like many other countries, do not always consider the impact of development projects on the environment. As a result, projects are facing various challenges because of environmental factors that are threatening sustainability, increasing maintenance costs, and even necessitating complementary projects to protect the environment. This leads to increased project costs and sometimes loss of benefits.

External Factors

Although political and economic instability, natural disasters, and other external factors are beyond the control of any project, they can threaten its sustainability. An audit must attempt to appraise the effect of such factors so as to sustain project benefits. Coping mechanisms used by project management can minimize losses.

Types of Development Projects

The nature and the content of development projects may differ largely because of their scope, location, and sector affiliation. Such differentiation also influences the gravity of above-mentioned factors in the evaluation process. In broad terms, the nature of development projects and major issues to be considered in assessing potential sustainability are discussed below.

Productive Projects

Agriculture, fisheries, forestry and mines are productive projects. Their sustainability depends on levels of technology, market mechanisms, pricing policy, resource supply, extension service, and job orientation or satisfaction of project personnel. In some cases, skilled personnel may not consider this sector suitable to their capability and tend to change the mode of their employment and investment. In addition, manual work is not always held in high regard in some societies. Project sustainability in Nepal suffers from lack of due care by managers and policymakers in strengthening interrelated activities and initiating intensive measures to solve problems. Sustainability may be enhanced by strengthening and making the projects responsible to user groups or beneficiaries' associations. Such groups or associations should have authority to manage project output and services.

Infrastructure Projects

These are essential to support long-term growth and balanced, integrated development of the economy. Sustainability depends mainly on having a reasonable pricing policy; technical capability in adopting new inventions; managerial systems instituted to ensure credibility of service; and, above all, innovativeness of managers in responding to changing situations.

Most infrastructure projects do not operate and deliver services in a credible manner because of inadequate and inefficient provisions, from both a financial and a managerial viewpoint, for maintenance, repair, and rehabilitation. Donors often require use of costly expatriate consultants, and consideration of skill transfer is rarely evident. This creates various problems during the operational phase, mainly after external assistance ends. Nepal has had such experiences in many projects. These weaknesses may be overcome by developing in-country capability.

Human Resource Development (HRD) and Institutional Support Projects

The consensus seems to be that developing countries cannot accelerate the pace of progress due to lack of in-country capability. The results of massively launched projects have not been encouraging and have sometimes been negative. Therefore, significant HRD measures must include sound management and organization systems to promote sustainability.

Personnel usage depends on there being enough surplus to generate employment and other facilities. These projects are sustainable with the initiation of various measures to ensure credibility in output and service delivery by adopting emerging technology and management practices.

Social Projects

Public education, health, and social welfare projects generally support social development by enhancing human potential and ultimately contributing to self-reliance. Projects face critical challenges relating to financing and delivery of quality services. In most developing countries, governments heavily subsidize social services, perhaps in the interest of maintaining popularity. Also, extending government support to social service projects has turned out to be burdensome in terms of both finances and motivation to human resource. Therefore, quality of social service has been controversial in recent years and has indicated the need to review the approach to financing social services.

Sustainability: Common Issues and Role of Audit

The intense desire to speedily transform the national economy has prompted government to launch new projects influencing different sectors of society. The common issues related to project sustainability in Nepal are as follows:

- launching an increasing number of development projects without genuinely considering managerial ability to carry them out;
- inadequate and insufficient financing mainly from internal resources, which has resulted in time and cost overruns;
- lack of an efficient and effective institutional mechanism to support HRD to enable staff to manage project activities;
- absence of a clear policy to evaluate project sustainability;
- significant increases in project costs because of poor performance and delayed completion; and
- introduction of sophisticated technology without considering market conditions and without maintenance facilities and capabilities.

Audit provides significant information on financial and related issues. To ensure value for money, the modern approach to government auditing encompasses economy, efficiency, and effectiveness aspects that are essential to identify procedures, practices, and limitations of operational systems. The real value of audit is the root causes of operational weaknesses. Measures can then be identified to promote project sustainability and effectiveness.

Effectiveness auditing encompasses identifying and evaluating factors related to sustainability, such as (1) the status of project benefit generation and distribution, (2) the current level of benefits, (3) factors inhibiting satisfactory performance, (4) interrelation of project components to complement their activities, (5) ways to make projects work better, and (6) adequacy of management systems in identifying weaknesses.

The Office of the Auditor General of Nepal, recognizes the need to identify factors that influence project sustainability and stability of policy matters to ensure effective generation of benefits. The major causes of weaknesses highlighted in the audit reports adversly affecting sustainability are nonavailability of support services, lack of skilled staff, an irrational pricing policy, inefficient and ineffective management control mechanisms, and lack of attention to strengthening institutional capability.

Audit cannot remain indifferent to the concerns of the public. There is a growing public concern about managerial and service-related issues, particularly inefficient delivery of products or services of development projects. Therefore, each supreme audit institution should seriously consider how to address substantial issues of public concern. Modern public auditing has developed methodologies to adequately evaluate critical aspects of project management.

Conclusion

Nepal faces the challenge of meeting requirements for information on project benefit generation, service delivery, and impact on the target population. In this connection, sustainability issues deserve special consideration in the audit process. Project impact depends on the measures taken to enhance the project's operation. Project monitoring and evaluation systems should include identifying and tracking factors that support sustainability.

Lessons on sustainability could be learned from completed projects and applied to future plans and programs. It also helps to ensure that planning will be done rationally and that scarce resources will be managed effectively.

For additional information, contact the author at: Office of the Auditor General, Babar Mahal, Kathmandu, Nepal. ■