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Reciprocity and Rent-Seeking: A Study of the Partnership Approach to Development Assistance

Frances Woolley^a

^a Department of Economics, Carleton University, Ottawa, Canada E-mail:

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Reciprocity and Rent-Seeking: A Study of the Partnership Approach to Development Assistance*

Frances Woolley**

ABSTRACT. – *Under the partnership approach to development assistance, donor agencies fund partnerships between donor-country and host-country institutions. This paper develops a model of development assistance in which project participants attempt to extract rents from donor agencies. The model is applied to an academic exchange between Carleton University and the University of Havana. The behaviour of project participants is rational given the constraints and incentives they face, yet individually rational responses can undermine collective reciprocity and jeopardize both partners' goals for development assistance. The paper concludes that structural and ideological issues may be easier to account for than personal needs and power.*

RÉSUMÉ. – *Dans la démarche de partenariat prônée pour l'aide au développement, les organismes donateurs subventionnent des ententes entre le pays donateur et les institutions du pays bénéficiaire. L'article propose un modèle d'aide au développement où les participants au projet tentent de soutirer des avantages aux organismes donateurs. Ce modèle est ensuite appliqué à un programme d'échanges entre l'Université Carleton et l'Université de la Havane. Le comportement des participants est rationnel si l'on tient compte des contraintes et des incitatifs auxquels ils font face. Pourtant, sur le plan individuel, les réactions rationnelles peuvent miner la réciprocité collective et mettre en danger les buts des deux partenaires pour l'aide au développement. L'article conclut qu'il est peut-être plus facile de tenir compte des questions structurelles et idéologiques que des besoins et du pouvoir personnels.*

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** Frances Woolley, Department of Economics, Carleton University, Ottawa, Canada.
E-mail <frances_woolley@carleton.ca>

Introduction

The 1980s and 1990s saw an international trend away from direct donor management of development projects toward the funding of partnerships between donor- and recipient-country institutions, such as non-governmental organizations (NGOs), universities and private sector firms (Raffer and Singer 1996, 140; Tisch and Wallace 1994, 83). The trend had a number of causes: concern about the ineffectiveness of the large direct interventions that characterized earlier development projects, a belief that NGOs in particular were in a better position to reach the poor than governments or large financial institutions, an international trend toward privatization and contracting-out as means to reduce government size and administrative costs while improving monitoring and accountability, and a desire to build stronger donor-country constituencies for development assistance.

This fundamental shift has, however, received little analysis in the literature. The extensive economic literature on privatization has largely ignored the contracting-out of development assistance. The development literature has addressed the political and economic motivations for development assistance, but much of the literature is in the “realist” tradition, focusing on the interests of states. Little attention has been paid to the incentives faced by individual participants in development projects, or the design of aid institutions. As Svensson (2000b, 62) argues, “... the voluminous literature on foreign aid and development has not dealt with incentive problems in the donor-recipient relationship in general, and credibility and institutional design issues in foreign aid policy in particular,” yet the micro-institutional problems of development assistance may be a key reason for the apparent ineffectiveness of much assistance.¹

This paper develops a model of contracted-out development assistance in which donor agencies fund partnerships between recipient- and donor-country institutions rather than participate directly in project management. The two institutions are in a “co-operative conflict.” Both gain from co-operating on the project, but they are in conflict over how to share the gains from co-operation. The model identifies and explores factors that enable project participants to further their personal interests through development assistance, such as informational asymmetries, monopoly power, and the availability of outside options. The next sections of the paper expand on the model by describing an academic exchange between Carleton University, in Ottawa, Canada, and the University of Havana, in Havana, Cuba, as a case study, describing the interests

1. Although Svensson's work is an exception to this rule (Svensson 2000a, 2000b).

of Cuban aid recipients and Canadian partner institutions and the sources of institutional bargaining power. The final section describes the outcome of the aid process and argues that, while the behaviour of project participants can be understood as a rational response to institutional constraints, the sum of these individually rational responses can create a lack of reciprocity, which jeopardizes the exchange. The paper explores factors that build reciprocity and argues that these are crucial to the long-term success of assistance programs. The paper concludes that structural and ideological issues may be easier to account for and deal with than personal needs and power, especially in the radically different political and social contexts of Cuba and Canada.

I. Co-operation and Conflict in Development Assistance

This section describes a general model of contracted-out development assistance. The focus is primarily on the co-operative conflicts between members of the recipient- and donor-country partner institutions, and secondarily on the role of donor agencies in development assistance.

The paper takes a “public choice” approach to understanding co-operation and conflict.² The core assumption of the public choice approach is methodological individualism. The focus is on the individual – his or her interests, incentives and constraints. The public choice approach has often been seen as highly ideological. As Cullis and Jones (1998, 15) argue, there is a “general antipathy towards government, in virtually all its guises, that runs through what has become ‘mainstream’ public choice.” It ignores the systemic structures that shape individual interests. The public choice approach can, however, be used successfully by those seeking to improve government programs and policies, and to illuminate the difficulties government agencies face when trying to design better programs. Public choice stresses the importance of the decision-making process. The focus is on how people negotiate and implement programs and projects. This paper aims to provide some understanding of why programs go wrong and what the prerequisites are for program success, and thus lay the groundwork for improving programs.

Institutions everywhere consist of people who pursue their own interests, goals, wants and desires. It can be in a person’s interest to increase his or her personal wealth or to further professional advancement. Some people have altruistic goals such as helping those in need, teaching and training others, or

2. For an insightful discussion of the assumptions and ideological content of the public choice approach, see Cullis and Jones 1998 (14–16).

advancing the state of knowledge. Conflicts arise because people in the partner and recipient institutions differ in at least some of their goals and objectives, and these in turn differ from those of the donor agency. These conflicts, however, are co-operative because both partner and recipient institutions must work together to create a successful project.

This paper looks at two phases of interaction between the recipient and partner institutions: the project development phase and the implementation phase. In the project development phase, recipient and partner work together to develop a proposal. Three elements of a project proposal influence the proposal's probability of being funded: the degree to which the donor agency's objectives are met, the rents to the recipient institution, and the rents to the partner institution. The rents to the recipient and partner institution are those elements of the project which further the interests of institution members, but which are not strictly required for successful completion of the project. Examples include a new computer on every project administrator's desk, or payments for administrative overheads in excess of actual costs incurred.

In Canadian development assistance, proposals are funded through competitions. Several proposals are submitted, and the donor agency funds some fraction of these. For a given assistance budget, higher rents to the recipient or partner generally mean that there is less funding available for, and therefore, lower compliance with, donor goals and a lower probability of receiving donor funding. For example, more money going to payments for administrative overhead means having less money for students' textbooks. However, each institution may well be prepared to accept, on the margin, a slightly lower probability of receiving funding in exchange for a sufficient increase in personal returns. This creates a conflict with the other institution: each would like to see the rents to the other minimized so as to maximize the probability of receiving funding and to maximize its own expected rents. For example, each institution would like to see the other's payments for administrative overhead minimized and their own, maximized.

Figure 1 shows the nature of the co-operative conflict diagrammatically. Any project proposal provides an expected rent to the partner, P , and an expected rent to the recipient, R , represented by a point on the locus of possible rents. The locus of possible rents slopes downward. A fall in the partner institution's rents, such as lower payments for administrative overhead charges, means that more funds are available for the recipient institution's rents, such as travel allowances for project participants, while maintaining the same level of compliance with the funding agencies' objectives.

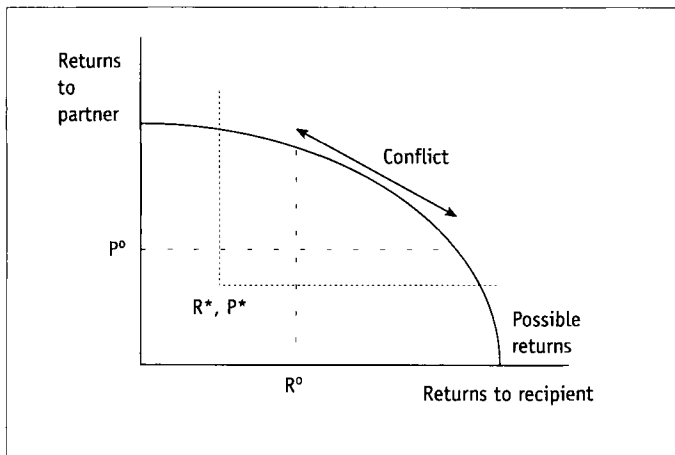


Figure 1. Co-operative conflicts

Bargaining theory identifies three factors that influence the division of these expected rents. The first factor is the recipient's and partner's fallback position (R^* and P^*), that is, the rents each receives if no agreement is reached. According to bargaining theory, the institution with the stronger fallback position will receive a greater share of the rents, all else being equal.

The second factor is each institution's bargaining power. Greater bargaining power leads to a greater share of the available rents. The literature identifies several sources of bureaucratic power: asymmetric information, agenda control and selective efficiency (being efficient in doing only what one wants to do) (Wintrobe 1997, 431). This paper identifies additional sources of bargaining power in development assistance projects, including the ability to limit access to other potential aid recipients, negotiating skills, appeals to norms of fairness and institutional constraints, in both recipient and partner institutions.

The third factor that determines bargaining outcomes are the "outside options." An institution's outside option is the rent it would receive if it broke off the current negotiations and reached an agreement with another, outside, partner. Outside options have no effect on bargaining, as long as each institution is receiving at least as high a return as it could receive elsewhere. However, neither institution will accept less than it could get with its outside option. It would be better to just walk away from the negotiations. The outside option, therefore, imposes a lower bound on the rents each partner is willing to accept. The outside options are shown as R^0 and P^0 in figure 1.

The second phase of the project proposal is implementation, during which two key issues arise: renegotiation and monitoring. Renegotiation of the terms of the project proposal is endemic, for two reasons. The first is the problem of the “winner’s curse.” The winner’s curse arises because participants have incorrect information about the costs and benefits of the project. Winning projects tend to be those where the potential accomplishments have been overestimated and the projected costs, underestimated. Winners, therefore, tend to be “cursed” with lower benefits and higher costs than anticipated. Therefore, the terms often need to be renegotiated if the project is to be completed successfully. Another reason that renegotiation occurs is that, after the donor agency has committed to the project, the recipient and partner institutions have some degree of monopoly power, which they can use to extract more favourable project terms. Monitoring refers to the process of ensuring that the terms of the project are agreed to. It is, essentially, a problem of governance.

Co-operative conflicts arise in many contexts. What is unique and interesting about development assistance in general and academic exchanges in particular, is the form of these conflicts. Project participants in the donor and recipient country may be similar in terms of their education, occupation and underlying values. All participants value, to a greater or lesser degree, money, travel, equipment, ideological comfort, personal and professional advancement (e.g., Tisch and Wallace 1994, 101). However, the very nature of development assistance means that donor-country participants will live in rich countries, and recipients, in poor countries. The large disparities in income and wealth between project participants mean that recipient-country and donor-country participants will have different immediate priorities, goals, aims and interests.

The next three sections of the paper explore an academic exchange between the University of Havana and Carleton University. The exchange was initially funded by the International Development Research Centre (IDRC) and involved a two-year (1995-1996) exchange between the economics departments of Carleton University and the University of Havana. CIDA then funded a broader, five-year (1996-2002) project, involving biotechnology, business, communications, economics, women’s studies and, later, public administration. The Carleton/Havana exchange is used as a case study from which we can learn more about what is in each institution’s interests and about the key sources of bargaining power. Issues relating to project implementation – renegotiation and monitoring – are then explored.

II. Interests of Recipient-Country Participants

The root cause of some of the most intractable conflicts in development assistance is the huge value of project participation in the recipient country. The Cuban example is extreme but not unique – the situation is similar in Russia and in the transition countries of Eastern Europe. Some background on the Cuban economy shows just how valuable project participation can be to a Cuban academic.

A. Income and Expenditures of a Cuban Academic

The collapse of the Soviet trading bloc and the US embargo led to an economic crisis in Cuba in the early 1990s from which the economy has never fully recovered. Today, Cuba has a dual economy comprised of the peso and the dollar sectors. Cubans employed by the state or in state enterprises are paid in pesos. In 1996, an average Cuban's salary was 214 pesos per month.³ Pesos can be used to purchase goods in "peso stores," where prices are low and where goods are rationed through the *libreta* (notebook). However, because the rations are so small, only about half of a Cuban's nutritional requirements can be met through the peso sector (Pearson 1997, 687).⁴

Food for at least half of each month, as well as meat, shoes, clothing, soap, shampoo, toilet paper and a number of other basic commodities, has to be obtained in the dollar sector of the economy, where trade takes place in US dollars (pesos are accepted at the market exchange rate of about 20:1; the official exchange rate is 1:1). Marta Mederos and Raul Sandoval found that, in 1995, the cost of purchasing the basic nutritional requirements in the dollar and private sector was 265.8 pesos per month, more than an average Cuban's salary.

At the time of the Carleton/Havana exchange in the late 1990s, peso salaries at the University of Havana ranged from just under 200 pesos per month for a junior lecturer with a bachelor's degree to over 400 pesos per month for top university administrators. At the prevailing peso/dollar exchange rate of about 20 pesos to US\$1, this translated to a salary of between US\$10 and US\$20 a month. A Cuban academic earned enough for bare subsistence. He or she had to get extra resources from somewhere – relatives in the United States, black

3. The figures in this paragraph, unless specified otherwise, were provided by Arch Ritter.

4. Marta Mederos and Raul Sandoval at the University of Havana have compared the quantity of food available on the *libreta* to basic nutritional requirements. They found that in 1995 it was possible to meet 50.3% of daily energy requirements, 49.0% of protein, 17.1% of fat (*Grasas*) and 63.7% of carbohydrate requirements through the *libreta*.

market activities, bonuses at work – to buy clothes, meat, shoes and other commodities. In this context, development assistance becomes crucial as a source of direct income supplementation, and also for future savings, for *socio-lismo* and political advancement.

B. Income Supplementation

Development assistance is one of the few ways Cuban academics can supplement their incomes. When program participants travel, they receive a per diem for living expenses. For example, the Carleton/Havana exchange provided short-term visitors to Canada or Cuba with CA\$125 (about US\$80) per day, while long-term visitors received CA\$1,200 (about US\$800) per month. The per diems for a seven-day visit are equivalent to four-and-a-half years' salary for an average Cuban.

The huge value of international travel relative to Cuban incomes means that every Cuban program participant has an interest in travelling. It is also, as described later, a source of conflict. When a week of travel generates the equivalent of four-and-a-half years' salary, the temptation to build extra travel into the budget, and to trade travel opportunities for other benefits, is almost irresistible.

Travel generates higher consumption, as well as higher income. Even with hard currency, the range of goods available in Cuba is limited, and prices are relatively high. In Canada there are second-hand and deep-discount stores and a plethora of commodities – particularly cheap electronics and toys – that are not available in Cuba. A day spent finding new shoes may mean months of comfortable walking back in Cuba; a day spent finding a video game might make some child back at home extraordinarily happy; spices and cooking oil might make beans and rice more palatable for the rest of the year. Government restrictions make professional exchanges one of the very few ways Cubans can travel outside the country.

Travel also provides opportunities for corruption, for example, convincing two donor agencies to reimburse a single airfare. No corruption has been found in the Carleton/Havana exchange, but project administrators were very concerned about the possibility that it might occur.

C. Saving for the Future

For a Cuban academic, the opportunity to earn per diems on a trip overseas happens rarely. Cuban visitors to Carleton University have treated their per diem allowances exactly as the "permanent income hypothesis" predicts people will treat any temporary change in income – instead of spending seven days

living as Canadians do, the visitors try to save as much of the per diem as possible by living as they do in Cuba to cushion against future economic hardship. For example, three or more people might share a one-bedroom apartment, skip lunch rather than eat at a restaurant, and make instant coffee in somebody's office instead of buying coffee in the cafeteria. Although it is perfectly understandable, the Cuban interest in saving as much of the per diems as possible has been a source of conflict in the Carleton/Havana exchange, as described in section IV.

There is another way of saving for the future. Without financial markets, it is extremely difficult for Cubans to save for hard times, so Cubans give each other gifts, with the expectation that the gift will be reciprocated in times of need or if the receiver has good fortune. This way of consumption smoothing is, perhaps, one of the origins of the system of *sociolismo*.

D. Sociolismo

To understand international assistance in Cuba fully, one must understand the system of *amiguismo* or *sociolismo* (the term is a pun on *socialismo*, socialism). Ritter (1998) translates *sociolismo* as "friend-ism," but an alternative translation might be "crony-ism." *Sociolismo* means that:

Basically any person with any control over resources could exchange access to those resources for some current or future personal material benefit. A shoe store clerk reserves a pair of shoes at the low official price for a friend who could provide some other product ... Complex networks of reciprocal obligations thus became an important part of the functioning of the economy, (Ritter 1998, 73)

Photocopiers, paper, fax machines, computers, e-mail access, pens, chalk – anything provided through international assistance – can, through *sociolismo*, be translated into a better life for the recipient.

The system of *sociolismo* means that, after income supplementation, the next Cuban priority is for physical equipment, particularly equipment which can be used for personal benefit, for *sociolismo*, or which has high cash or resale value. For example, one of the major expenditures in the IDRC-funded Carleton/Havana program was a minivan. The minivan contributed substantially to the success of the program. Before the van was bought, students spent hours a day, sometimes cycling many miles, just getting to and from campus. The van solved these transportation problems but was also of personal benefit to the administrators involved in the program, who could second the van and driver for their own and for University use. The van was also a valuable part of the *sociolismo* network.

A second consequence of the *sociolismo* network is that Cuban administrators need to control who benefits from the assistance so that they can reward people who have been useful in the past or who will be useful in the future. It follows that Cuban administrators will want to see benefits from the assistance going to those in positions of power and influence, to senior, not junior, members of the institution. The control of program beneficiaries has been a source of conflict, as discussed in section IV.

The need to control benefits also explains the practice of the administrative hoarding of anything that might be of value, such as paper. Administrative hoarding is also encouraged, oddly enough, by the absence of private property in Cuba. Because all property is public, the distinction between public and private property becomes blurred. For example, top government officials do not own beautiful homes; they are given permission to live in beautiful homes owned by the state – is this private or public property? This blurring means that sanctions against private use of public property are eroded.

A bureaucrat who excels at *sociolismo* basically becomes an entrepreneur,⁵ and faces a real trade-off between risks and rewards. The rewards come from exploiting the scarcity in the Cuban economy and gaining power, prestige and material rewards in exchange for supplying desperately needed commodities. The risks arise because, to obtain scarce commodities, it is often necessary to push the envelope of accepted behaviour by, for example, buying and selling on the black market, exploiting personal relationships, or developing relationships with ideologically suspect foreigners. Taking these risks jeopardizes Cubans' fourth and sometimes most important, survival strategy: political advancement.

E. Political Advancement

Political advancement matters to Cubans' everyday quality of life. The state controls critical aspects of life such as access to housing, access to exit visas to leave the country temporarily or permanently, university admissions, occupational choice, and professional advancement (León 1997, 48; Human Rights Watch 1999, 140).

5. The widespread entrepreneurial ethic in Cuba – and the repression of entrepreneurial activity – is revealed by a joke: "What does it take to make a successful Cuban entrepreneur? – \$100 and a ticket to Miami."

Cubans receive material rewards for political conformity. People's actions are monitored, and the records are used in, for example, promotion decisions:

Cuba also monitors political fidelity at the workplace and in schools. The government maintains academic and labor files (*expedientes escolares y laborales*) for each citizen, in which officials record actions or statements that may bear on the person's loyalty to the regime. Before advancing to a new school or position, the individual's record must first be deemed acceptable. (Human Rights Watch 1999, 144).

All substantive activities of the universities are expected to have a "a profoundly political-ideological imprint," and universities are expected to form "revolutionary convictions" (Human Rights Watch 1999, 144-145). The elements of these revolutionary convictions, the official Cuban political ideology, are written on the walls everywhere in Havana and are shouted out at marches and rallies. "*Socialismo o muerte! Fidel! Fidel! Fidel! Somos felices a aquí. Lo mío primero.*"⁶

The key point is that an average Cuban's life is less difficult if he or she participates in and supports the revolutionary project. Given the importance of political advancement and the Cuban government's ideological commitment to socialism, it is not obvious how it could be in the University of Havana's interest to co-operate in the teaching of neoclassical economics and the superiority of competitive markets as a form of economic organization. A number of explanations do, however, exist for this apparently paradoxical situation.

First, material and intellectual scarcity can create a small opening for new ideas. Before the creation of the Carleton/Havana program, there was almost no knowledge of neoclassical economics in Cuba. But the collapse of the Soviet bloc forced Cuba to trade in the global marketplace and increased the relative importance of ties to countries in the Americas, such as Mexico and Canada. This created a need for an understanding of the international economic system, capitalist economies and capitalist economics.

Second, much of the material taught in the program – econometrics, mathematical economics, game theory – is highly technical. Technicality hides ideology. For example, the message behind the first theorem of welfare economics, namely, the superiority of individual choice and free markets over other forms of economic organization, is not obvious from a quick perusal of a typical graduate textbook. Technical courses were particularly welcomed – partly because of the excellent mathematical background of many of the Cuban students,

6. Translation: "Socialism or death. Fidel, Fidel, Fidel. We are all happy here. Our way is best."

partly because of difficulties with English, but partly also because they were ideologically comfortable.

Third, the initial Carleton/Havana collaboration involved just the economics departments, so neoclassical economics was the only option available. When the project was broadened to include other components, there was considerable interest in business, public administration and women's studies, perhaps because these programs were perceived to be more compatible or of greater benefit – though it is important to ask “Of benefit for whom?” Henry Veltmeyer, the CJDS Associate Editor for this paper, has suggested that perhaps Cuban academics found that, for good reasons, the economics perspective neither useful nor desirable.

Finally, it could be that the other benefits to the program, in the form of income supplementation, equipment, and so on, were large enough to outweigh the political risks.

III. Interests of Canadian Partner Institutions

The Development Set is bright and noble,
Our thoughts are deep and our vision global;
Although we move with the better classes,
Our thoughts are always with the masses.⁷

Academics and administrators at Carleton University, like those at the University of Havana, value money, travel, equipment, ideological comfort, and personal and professional advancement. Yet these similar underlying interests manifest themselves in a very different form in the Canadian academic system. This section describes how the interests of Canadian participants are furthered through project participation. It is argued that Canadian participants' ability to divert resources for personal use is limited and that the benefits of project participation are relatively small. This changes, rather than eliminates, the form of conflicts and the possibilities for rent seeking. Substantial rents may be received in the form of payments for institutional overhead and professional advancement, but these rents are often kept off the table during project development negotiations with the recipient institutions.

A. Individual Benefits for Project Participants

The problems for donor-country project participants are, in many ways, the polar opposite of those for recipient-country participants. Project participation

7. Ross Coggins, *New Internationalist Magazine*, <www.oneworld.org/ni/index4.html>.

is distorted in recipient countries because the opportunity to participate is worth so much. In donor countries, project participation is worth almost too little.

When Canadians and Cubans receive the same nominal benefits from program participation, those benefits are worth far less to Canadians. Per diems are a good example. When Canadians and Cubans receive the same per diems in dollar terms, the amounts of money involved matter far less to Canadian participants. For a mid-career Canadian academic,⁸ the per diems on a seven-day visit are equivalent to four-and-a-half days' salary; for a Cuban academic, they are worth four-and-a-half years' salary. Travel costs, including, for example, child care costs, erode the value of per diems. Moreover, academics in many fields have other, more lucrative, opportunities to earn extra income.

Travel is also a less valuable incentive for Canadians because Canadians have many opportunities for "academic tourism," such as travel to conferences. In the Carleton/Havana CIDA-funded project, computer upgrades are the only significant equipment incentive, except possibly in the biotechnology component. Rents to the partner institution, for example, funding to hire extra faculty or staff, foreign student tuition fees and payments for university overhead, are not received directly by project participants. A commitment to Cuba or a desire to better the lot of those in need is a key motivation for Canadian participants, but ideological commitment is not tied to political advancement or day-to-day survival as it is for Cubans.

Research output (in recognized publications) and opportunities to work with good graduate students are two important individual-level benefits for Canadian participants. Yet translating project participation into research output is not straightforward. A large investment needs to be made in learning about the recipient country before any sort of informed research is possible. Even then, the obstacles to conducting developing country research – lack of data, language difficulties – mean that the return in terms of refereed publications is often lower than for time spent working on North American issues. Moreover, Canadian research priorities may not fit well with the needs of developing country institutions. As McAllister (1982) argues, "Academic priorities (often perceived in quite parochial and departmental terms) can obscure the real requirements of the international development project, or association, in question."

8. Calculated using an average Carleton professor's salary of \$70,000 pro-rated over the 365 days in a year.

The Canadian academic incentive structure also rewards raising funding for research and training. There are personal rewards for initiating projects and attracting research funding for the university. Unfortunately, there are far fewer rewards for carrying out the day-to-day work of project administration and building relationships.

These circumstances together create a set of interests – incentives for particular types of behaviour – that do not necessarily serve the aims of development assistance. First, it is easiest to carry on “business as usual,” teaching or doing research using familiar material and methods, for example, teaching the public economics course as it is taught in the home country. This minimizes the time and effort involved in project participation but creates a “foreign expert” syndrome, where material is given without sensitivity or attention to local context.

The opposite extreme is to become a “development entrepreneur,” making a sustained commitment to initiating and carrying out development assistance projects. It takes a particular combination of facilities and circumstances to become a development entrepreneur: an ability to draft project proposals, a facility with languages and cultures, a commitment to developing countries, and a willingness to travel. Spearheading development initiatives has personal rewards. Project developers can design projects that fit their research interests so that development funding complements research funding, and the designers receive professional credit for attracting outside funds. But once the project is developed, it is unclear who will carry it out.

In a labour market where two-income families are increasingly common, many people do not want to leave family responsibilities to travel the world. There are sometimes simply not enough people with a commitment to development and, at the same time, knowledge of specific areas, such as taxation policy or women in the labour market, to support projects. Many projects offer generous honorariums for teaching or advising in developing countries – a key rent available to Canadian project participants. Honorariums generate short-term involvement in development projects, but such short-term involvement, while it lends c.v.’s, expertise and credibility to a project, may not generate enthusiasm, long-term commitment and grassroots knowledge. Honorariums can buy experts but cannot buy the trust and reciprocity necessary for successful development projects.

B. Institutional Benefits

Development projects require not only faculty support but also considerable administrative time and effort. Why do Canadian universities support interna-

tional development projects? Perhaps it is for the prestige. Perhaps universities undertake development projects reluctantly, only supporting projects to retain faculty and indirectly support faculty research and graduate students. Perhaps universities have purely altruistic goals. Or perhaps they value the one tangible monetary reward associated with development projects: payment for administrative overhead costs.

Canadian partner institutions receive substantial overhead payments. CIDA policy bases overhead on payroll costs. The maximum overhead allowed for university projects is 54% of payroll costs for on-campus personnel and 35% for off-campus personnel (Association of Universities and Colleges of Canada [AUCC] 1998).

The striking point about payments for overhead is their size relative to other project expenses. The payments involved are much larger than, for example, the cost of running a minivan. And while these amounts may accurately reflect the average costs of project administration, they may be generous relative to the marginal cost of project administration – the cost of administering one more project once institutional structures and administrative supports are already in place. Second, overhead payments are not subject to negotiation during the project development stage – they are kept outside the “co-operative conflict.”

Why and how are overheads kept off the table? First, Canadian institutions play a “repeated game” with CIDA, submitting projects year after year. If a Canadian institution accepts a lower overhead payment on one project, it may be forced to accept a lower payment on all subsequent projects. The long-term costs of forgoing overhead payments are huge, so it may well be better to forgo one project than to forgo future overhead payments on all subsequent projects.

Second, Canadian universities work together. The AUCC has negotiated an agreement on overhead with CIDA. It could conceivably be in one university’s short-term interest to deviate from the agreement, accept a lower overhead payment, and increase the probability of receiving project funding. But this would make all universities worse off in the long run, by lowering overhead payments. One can speculate on the reasons universities do not deviate from the AUCC/CIDA agreement: perhaps the probability of receiving funding is not sensitive to the size of overhead costs; perhaps it is because universities trust and communicate with each other; perhaps universities stay with the AUCC/CIDA agreement because, if overhead payments were any lower, it would not be worthwhile to undertake development projects. As one referee for this paper points out, “Overhead costs are real.”

Payments for overhead costs are not the only item kept off the table when project proposals are negotiated. In general, Canadian project participants have far fewer opportunities to negotiate the size of personal rents than do Cuban participants. University and CIDA policies limit the size of per diems, honorariums and other payments. Internal (i.e., university-level) and external (i.e., government-to-university) monitoring mechanisms, such as audits, tightly control the use of funds. Because there is a competitive project submission process and because the costs of administering a project in Canada are fairly well known to government agencies, projects with excessive rents to the partner institution are not funded. This means that the incentive to increase these rents is weak. Although partners benefit from project involvement, these benefits are subject to limited negotiation, are fairly constant across projects and are known to government agencies.

If the partner institution can do little to influence the rents it will receive if the project is implemented, the best way to increase the expected rents from drawing up a project proposal is to maximize the probability of being funded (this follows directly from the fact that the expected rents are equal to the rent if the project is funded times the probability of project funding). For this reason, and because Canadian partners have more information about government objectives, and more opportunities to communicate with government agencies, complying with CIDA objectives is a key interest of the partner institution.

CIDA's stated priorities are basic human needs, women in development, infrastructure services, human rights, democracy and good governance, private sector development, and the environment (CIDA 1999). Canadian partner institutions have strong incentives to act as "academic entrepreneurs" and to use "grantsmanship" to create projects that fit government goals. The Carleton/Havana exchange has indeed been shaped to match CIDA priorities. For example, a women's studies component supports CIDA's goal of furthering women in development, the communications component contains funding for building the basic infrastructure for electronic communications (Internet and e-mail), and the biotechnology component aims to develop more environmentally sound methods of sugarcane production.

Yet the project's success in receiving CIDA funding arguably has more to do with the Canadian government's more subtly stated foreign policy objectives. Cuba provides an opportunity for Canada to exert an independent foreign policy. Cuba is a test case for the Canadian policy of "constructive engagement," in which integration into the international system, economic reforms, human rights and good governance are encouraged and supported, in contrast to the

“destructive disengagement” approach of the United States (Ritter 1999, 1). The Carleton/Havana project was funded in part because CIDA believed that inter-university contact provided a small opening through which CIDA could enter the Cuban system and push for change. However, these unstated goals may have been at the heart of the most intractable conflicts between Carleton and Havana: those over governance and openness.

IV. Conflict and Co-operation

The description of Cuban and Canadian interests in the preceding sections highlights the potential for conflicts between the two institutions. Yet these conflicts occur in the context of an ongoing co-operation. The negotiation of the co-operative conflicts can be thought of as determining the nature of reciprocity between the two parties. This section begins with a definition of reciprocity. An explanation of why reciprocity matters follows along with some examples of conflicts over the form of reciprocity in the exchange. The section concludes with a discussion of the resolution (and, in some cases, non-resolution) of these conflicts, and an exploration of the lessons learned.

Reciprocity has two meanings, both of which apply here. On the one hand, it can refer to mutual action – the process of co-operation. On the other hand, it can mean the give and take, especially the interchange of privileges, which define the terms of co-operation. Reciprocity matters for several reasons. First, it provides a non-monetary, personal, “warm glow,” reward for program participation. Second, it reduces the transaction costs of negotiating and administering the project. There is more need for explicit negotiation when it is not simply assumed that favours will be reciprocated. Ultimately, if reciprocity cannot be established, mutual action is impossible.

Even under the most ideal circumstances, it would have been difficult to establish reciprocal relationships between program participants at Carleton University and the University of Havana. Communication was and is a problem. At the beginning of the project, few Canadian program participants spoke Spanish, and few Cuban participants spoke English. Telephone, e-mail and regular mail contacts have been difficult and unreliable. Cultural differences have made it difficult to read unspoken signals, such as body language. Even setting aside communication difficulties and cultural differences, Cuban and Canadian participants have frequently had fundamentally different priorities and expectations. The failure of the opposite side to meet expectations has led to a sense that reciprocity was violated. Here, I will give just three examples: research output, control over program beneficiaries, and accommodation. In part

these examples reflect my own standpoint as a Canadian project participant. Cuban participants would undoubtedly give a different list of conflicts, possibly including the unwillingness of Canadians to travel or learn Spanish. The examples also reflect the Canadian participants' success in keeping key items, such as payments for overhead costs, off the agenda.

A. Research Output

Canadian and Cuban project participants have fundamentally different priorities in the area of research. Research output is a key interest of Canadian project participants because Canadian academic advancement is closely tied to publication, especially publication in key, internationally known journals. In contrast, there are fewer rewards for, and more obstacles to, original research in the Cuban academic system. Promotion and professional status is only loosely linked to publication. Cubans lack research tools from paper to academic journals, and very little data is available on the Cuban economy. Information one might assume would be readily available, such as earnings and expenditure data, is not collected. And there is a political risk to publishing research that is critical of the Cuban revolution.

Research has been a subject of conflict in the economics component of the project. One aspect of the conflict has been the volume of research: less has been produced than the Canadian participants wanted. This conflict has been partially resolved. The University of Havana has resumed publishing the journal *Economía y Desarrollo*, and the publication of a research paper is now a condition for receiving travel funding. The resolution of this conflict in favour of Canadian priorities has resulted from two factors. First, various outside forces have made publishing more important for Cubans, for example, the desire to build an international reputation for the economics department. A UN study on Cuba, which cited no economists from the University of Havana's faculty of economics, was an embarrassment to that university. Second, the Canadian coordinator of the economics component has refused to fund projects unless some research output is produced. If Canadian participants control the program budget, set simple and reasonable guidelines for project participation, and are willing to cut off funding if guidelines are not followed, they can effect change.

The conflict over research also has political and ideological components. A recent paper by Arch Ritter and Nicholas Rowe (Ritter and Rowe 2002) has been described as offensive, anecdotal and without basis in facts. The paper, among other things, advocates foreign enterprises' paying workers income sup-

plements in hard currency so that the workers can concentrate on their work. That suggestion met with heated reaction in Cuba:

También resulta indignante y ofenso el planteamiento (por demás, anecdótico y sin base factual explita) que se refiere a los pagos en dólares que realizan las firmas extranjeras acreditadas en el país a sus trabajadores par a "lograr un incentivo y hacer posible que los empleados se concentren en el trabajo en lugar de pensar en su próxima comida [necessary as income supplements to provide an incentive and to make it possible for employees to be able to concentrate on their work rather than their next meal]. (Gutiérrez Castillo 2000)

By way of contrast, a collection of writing on Cuban women (Lundy and Vasallo 2001) which is more supportive of the revolution ("For more than forty years the Cuban people have been struggling to build socialism often under adverse and hostile conditions ..." [Lundy and Vasallo 2001, 45]) includes published contributions from six Cuban academics, and has met with a much more positive reception.

Differences in research priorities are not purely ideological. Two of the biotechnology professors, Margaret McCully and Martin Canny, each received honorary degrees from the University of Havana in recognition of their joint research with Cuban academics. Their work has led to the discovery of a new bacterium found in sugarcane plants which can fix nitrogen in the soil, thereby obviating the need for some chemical fertilizers. While this research has been successful, most of the Cuban participants have not co-authored the academic papers coming out of the project (e.g., Dong et al. 1997). This reality suggests that there is simply less importance attached in Cuba to publishing in what are regarded by Canadians as the high-prestige (often English-language, often US-based) journals.

Indeed, if research is interpreted in broad terms, rather than in narrow publication-in-this-list-of-journals terms, the project has been much more successful. As well as successes in biotechnology and Lundy and Vasallo's (2001) research in women's studies, Cuban faculty are taking over the teaching of the master's program in economics, and strong economics departments have been established at the University of Oriente. Moreover, there have been spinoffs from outside the university to the finance and economics ministries, and to the central bank. A number of graduates of the master's program are now taking PhD programs in economics, either at Carleton or through the University of Barcelona. Others are working at research institutes, at Cuban universities or for international organizations. The Carleton/University of Havana collaboration

has increased research capacity, broadly defined, even if relatively few papers have been published in international journals.

B. Control over Program Participants

Cuban control over Cuban program beneficiaries is vital to University of Havana administrators. Control matters, first, because the program is used for *sociolismo*; second, because access to international assistance is such an important source of income, distribution of assistance needs to meet internal norms of equity. Outside agencies usually wish to fund the most capable and brilliant researchers, but this could result in a few people receiving most of the foreign assistance. Unfortunately, Cuban control is a problem for Canadian participants. The Cuban participants selected are not always the best researchers, not always a good fit with Canadian counterparts' research interests, and not always those who would benefit most from the project.

University of Havana administrators have implicitly framed the conflict over program beneficiaries in terms of reciprocity. Carleton determines the Canadian project participants; Havana chooses the Cuban project participants. It is fair and reciprocal, yet the appeal to fairness is disingenuous. The issue is not whether the form of governance at Carleton or at Havana should be the same. Both partners accept that position. The disagreement is over the form of governance both partners should use. Cubans want each side to have absolute control; Canadians generally would prefer a joint determination of project participants based on characteristics such as research interests, fit with the partner institution, and previous record.

In fact, Cubans have retained control over Cuban participants and, to some extent, over Canadian program participants as well. Two factors have made this possible. The first is the internal institutional structure at the University of Havana. The power of those in authority (strengthened by the system of *socio-lismo* and the importance of political advancement) meant that people who received a subtle hint that their participation would not be welcome did not ask to participate. This is evidenced by the low number of applications to participate in the doctoral economics program, for example. The second source of Cuban control is "selective efficiency," that is, only being efficient at the tasks one wants to do. The process of obtaining visas to enter or leave Cuba is complicated. It is easy to block program participation simply by not granting people visas. For example, I was not granted a visa for my last visit to Cuba; whether this was the result of selective inefficiency or just ordinary inefficiency, I do not know.

The lesson to be learned from the conflict regarding control over beneficiaries is that governance of one project cannot be separated from the larger system of governance. Even if University of Havana administrators wanted to forgo control over program beneficiaries, they would have difficulty doing so. Administrators' influence in the University of Havana's institutional structure means that anyone who wants future advancement must try to conform with administrators' wishes – and that means not applying to a program if that program is politically unpopular.

C. Accommodation

Accommodation may seem to be a trivial issue, but a large part of the project budget, especially in women's studies, is for academic exchanges. Appropriate accommodation does much to enhance the success of exchanges. At the same time, providing accommodation turned out to be a major problem, at least in the women's studies component, which I administered.

Cuban short-term visitors to Canada receive a per diem of \$125 to cover their living expenses. This per diem ostensibly eliminates income disparities by giving Cuban visitors the means to live as Canadians do while in Canada. Yet because Canadians and Cubans have such different levels of permanent income, as noted in section II (B), it is rational for Cubans to smooth their consumption over time and to live as Cubans do during their visits to Canada. A night in a Canadian hotel, or even at the local YMCA, costs a Cuban the equivalent of two or more months' salary. Visitors – Cuban or Canadian – do not expect to be asked to forfeit months of salary for one night's accommodation. But then how is accommodation to be arranged?

Some Canadian participants have solved the problem by inviting Cuban participants into their own homes, but this is "too much." First, Cuban economic hardship makes reciprocating difficult. How can a Cuban academic invite a Canadian over for dinner when he or she does not have enough knives and forks, or plates, or chairs? Canadian expectations are a second obstacle to reciprocity. Canadians may prefer the privacy and comfort of a hotel room. Finally, if Canadian and Cuban participants cannot, for whatever reason, establish a rapport, imposed intimacy is unwelcome.

There are solutions to the accommodation difficulty. Now that a substantial Carleton/Havana network is in place, Cuban participants can come in groups and share inexpensive private accommodation, such as a basement apartment, but this is "too little." Hosting guests in such accommodation violates Canadian norms of what is acceptable. Canadians cannot easily arrange such accommodation for Cuban visitors. Perhaps most significantly, it discourages integration

between Cubans and Canadians. If five people are staying, shopping and travelling together, it is difficult to arrange a meeting with just one person.

A solution which meets Canadian expectations and which Dalhousie University has implemented in its collaborative project with Cuban academics,⁹ is to pay for hotel accommodation and lunch for Cuban participants out of the program budget and to give participants a reduced per diem. This strategy was suggested and rejected during my involvement with the Carleton/Havana project, although it is being used for some current project activities. Despite the difficulties with accommodating Cuban visitors, we may have been right to reject it.

Cuban visitors quite rightly perceive visits overseas as payment for hard work within the university. A salary of 200 pesos a month is not much of a reward for one's efforts. An occasional overseas visit may well keep trained faculty at the university who would otherwise have left long ago to become waiters or desk clerks in local hotels. A visit that generates large savings is more valuable than one that generates smaller savings. In that sense, the unrestricted use of per diems may do as much as any other project component to strengthen the University of Havana faculty base, even if it makes Canadian hosts uncomfortable.

The accommodation example illustrates three points. First, reciprocity, which is based at some level on a sense of equality, is difficult to build in the presence of massive wealth disparities. Per diems ostensibly eliminate income disparities by giving Cuban visitors the means to live as Canadians do while in Canada. However, as long as differences in permanent income remain, it will be rational for Cubans to smooth their consumption over time and adopt a Cuban lifestyle while in Canada. Per diems cannot eliminate disparities in permanent income.

This observation points to one of the biggest lessons I learned from my participation in the Carleton/Havana exchange. The women's studies component was a top-down collaboration – it was initiated partly in response to CIDA's goals, and began with my meeting the top Havana project administrator, and not by my meeting women's studies scholars in Cuba. The project did not begin with a meeting of minds, a sense of commonality, and a shared research agenda. Language, cultural differences and differing interpretations of feminist research made it extremely difficult to build that sense of reciprocity after the project had started. The lesson: collaborations must begin at the bottom and work up.

9. Personal conversation with F. Siddiq, Dalhousie University.

Ground-level collaborations are not easily implemented in the Cuban context because of the tight control exercised over program beneficiaries. The need to build reciprocity suggests that more openness is needed in Cuba. Top-down collaborations can also be encouraged through the academic entrepreneurship of Canadian administrators, who may put together project proposals on the basis of funding probabilities not on existing collaborations. Extreme caution must be exercised in actively designing projects to get grants.

V. Monitoring and Renegotiation

The model sketched out in section I suggested that, once the CIDA grant was awarded, the parties would attempt to renegotiate the terms of the agreement, partly because of their *ex post* monopoly position, and partly because the “winner’s curse” suggests that the actual project costs or gains may be higher or lower than anticipated.

Several events have happened during the implementation of the project to date which could be interpreted as attempts at renegotiation. The most major change in the terms of the project has been the transfer of a substantial amount of funding from the doctoral economics program to a new public administration program. The transfer was initiated by the University of Havana. The Cubans argued that, because they were working on creating a public administration program, they had a vital need for expertise in this area, while the doctorate program in economics was of more marginal benefit. This may be the beginning and end of the reason for the creation of the public administration program. However, it is an interesting coincidence that the transfer of the funding from the PhD in economics to the public administration program furthered the interests of Cuban participants.

First, the transfer allowed greater control over program beneficiaries. Carleton controls admission into the PhD program in economics. PhD students leave the country for long periods of time, so they cannot be politically controlled, and indeed are exposed to foreign influence. Second, the transfer allowed funds to be spread out more widely and to more senior members of the institution. The PhD program concentrates a large amount of funding on only three junior academics. In contrast, the public administration program provided for shorter visits by more Cuban participants. Third, the transfer could be explained in ideological terms. Carleton’s economics department is in large part neoclassical, while the School of Public Administration employs economists with a range of perspectives, including heterodox economists. The ideological argument cuts both ways. On the one hand, the transfer to the public

administration program can be seen as a flight *to* ideology – the heterodox “fellow travellers.” On the other hand, the transfer could be viewed as a flight *away from* ideology – the pro-market ideology of neoclassical economists. This example suggests that interests can explain outcomes, even though many program participants are motivated primarily by unselfish goals such as bettering the lot of ordinary Cubans.

The economics/public administration example also illustrates the role played by outside options. Although the PhD program has many undesirable characteristics from the Cuban point of view, the funding for this program would never have been thrown away. It is only when outside options are available that funding can be diverted to other uses. The presence of multiple players in the Canadian partner institution strengthened the Cuban negotiating position, because Cuban project leaders could “shop” among the components for the most attractive partnerships. This suggests, first, that if government agencies expect Canadian partner institutions to monitor compliance with project goals, they would be better off funding many narrowly focused projects, rather than a few large, multi-component, diffuse projects. Government agencies might even be advised to be proactive and to fund only part of a proposed project. Second, as emphasized earlier, academic entrepreneurship may be ill-advised if it results in inorganic collaborations.

After the establishment of the public administration component, no other major renegotiations of the terms of the project have occurred. What has happened, instead, is a pushing of the envelope in terms of acceptable project expenditures. For example, funding may be requested for a visitor to the University of Havana who has only a slight link with the project. Under the terms of the CIDA project, Canadian participants monitor funding. They can, therefore, limit unnecessary project expenditures. Their ability to do so is, however, limited by their administrative ability, by their will to control expenditures, and by their knowledge of the workings of the Cuban system and, hence, what is and is not a necessary expenditure. But do Canadians want to monitor project expenditures? Administration is much less enjoyable than research. However, a sense of responsibility and the danger that CIDA may withdraw funding give Canadians incentives to provide adequate project administration.

Government agencies have to think seriously about whether or not it is appropriate to delegate management of a project to Canadian partner institutions. Delegation has some advantages. It is less costly for CIDA; and it can result in more timely, more hands-on administration if project participants have more administrative discretion. Yet, it also has some drawbacks. I have

already mentioned the potential lack of interest or expertise in project administration. A more subtle drawback is the change in the nature of the relationship between Canadians and Cubans. There is no longer an equal partnership. Instead, the Canadian partner has, in a sense, the upper hand over the Cubans. That upper hand can be a welcome impetus for change, as in the case of research output, but it can also endanger the sense of equality and mutual action that is necessary for reciprocity.

Conclusion

The model developed here predicts that conflicts will exist between partner and recipient institutions in the development of projects, and the case study describes a number of such conflicts. The conflicts stem in part from the unequal relationship between Canadian and Cuban participants. Canadian academics have far higher incomes and many more opportunities than do Cuban academics. These inequalities contributed to conflicts over program participation and accommodation. Control over program participation became politicized in Cuba because the opportunity to participate in the project was so valuable. Arranging accommodation in Canada was difficult because accommodation was so expensive from a Cuban perspective. Inequality between donors and recipients is intrinsic to development assistance, but it is a key reason why time, sensitivity and thought are required to develop the trust and reciprocity needed for a successful development project.

Conflicts also stem, in part, from structural differences between the two societies. Conflicts over research and ideology reflect these differences, for example, in the importance assigned to publishing in certain journals, or in ideological perspectives. Canadians need to enter into development projects with an awareness of structural differences. This does not mean that structural differences should not be challenged, but a project that begins with unrealistic expectations has a low chance of success.

Conflicts are also inherent in the process of developing a project: if more money is spent on one partner's priorities, such as a new photocopier, less money is available for the other partner's priorities, such as honorariums for consulting or teaching. Both institutional structures and personal negotiating skills influence the outcome of these inherent conflicts. In some sense, the Canadian partner, having ultimate control over IDRC and CIDA funds, has a superior bargaining position. However, the University of Havana is in a position to block collaborations with other Cuban partners, which gives it bargaining strength. These inherent conflicts will be easier to solve when the partners

have more to gain from co-operating, and that occurs when there are common interests and a shared agenda. Common ground is more likely to be found when Canadian partners have a sustained commitment to, and interest in, development and when Cuban partners have a genuine involvement in and concern for the project.

Others looking at the Carleton/Havana exchange might not view it in terms of self-interested agents in a situation of conflict, but the emphasis is helpful in drawing lessons for development assistance in general, and contracted-out assistance in particular. Participants' personal needs are a major factor in the success or failure of a project. Ground-up collaborations have a better chance of building reciprocity and creating success. Program and societal governance structures are intrinsically linked. Finally, the contracted-out model of project management has both strengths and limitations.

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