

# Policy Practice Brief 2

## Making the New Political Economy Perspective more operationally relevant for development agencies

by Gareth Williams, Alex Duncan and Pierre Landell-Mills

The *New Political Economy Perspective*, introduced in our first Policy Brief, explores the links between political and economic processes, and their social, cultural and historical context.<sup>1</sup> The analysis of these factors is essential to understand why governments make particular policy decisions - in some cases supportive of growth and poverty reduction, but in extreme cases damaging to development. The New Political Economy Perspective has been adopted as an analytical tool by several development agencies, a notable example being DFID's Drivers of Change studies. This has brought about increased awareness and understanding of the importance of political processes in developing countries in shaping and determining development outcomes. However, the new insights have so far resulted in only limited changes in donor assistance strategies. This Policy Brief, the second in a series prepared by The Policy Practice, discusses how the New Political Economy Perspective can be made more operational. The issues it raises are central to debates about improving aid effectiveness, and are particularly pressing in the context of commitments by rich countries to increase substantially their aid flows to Africa in the face of challenging governance conditions.

### Impact of the New Political Economy Perspective on donor operations

The New Political Economy Perspective (NPEP) has not yet had a major impact on the way that aid is delivered, but there are some cases where its lessons are beginning to influence donor operations. Within DFID, the Drivers of Change (DoC) framework has had a significant effect at the strategic and policy level. A recent review of the uptake of DoC ideas concluded the approach has contributed to: (i) informing the planning process and feeding into Country Assistance Plans, (ii) improving the quality of engagement with partner governments, (iii) risk analysis and mitigation, (iv) strengthening harmonisation with donor partners, and (v) promoting joint working with other UK government departments.<sup>2</sup>

There is also evidence that the NPEP is beginning to influence the design and delivery of individual development programmes. In its recent White Paper, DFID has indicated its desire to work more closely with civil society and private sector organisations

pushing for greater public accountability and improved public sector performance.<sup>3</sup>

However, the NPEP is not yet systematically used as an aid management tool. It has proven difficult (or donors have been hesitant) to translate the general findings of studies into specific operational recommendations to improve the effectiveness of aid delivery, as a recent review noted:

*There are fewer instances, however, of the way in which Drivers of Change studies have altered the shape and nature of our programmes. The reasons for this include: the newness of the Drivers of Change approach; the scale, range and complexity of the issues to be considered (the number of factors highlighted in each country ranges from 9 to 18); and ongoing contractual obligations, underlined by DFID's commitment to greater predictability.<sup>4</sup>*

Against this background there is a risk that the NPEP will be sidelined as interesting contextual

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analysis, rather than being used systematically as a tool to increase aid effectiveness. Donor interest in the perspective will not be sustained unless its practical relevance can be demonstrated. In order to move towards a more operational approach three questions need to be addressed:

- Is there a legitimate role for donors in seeking to influence political processes in the countries in which they work?
- In general terms what principles should donors adopt in seeking to apply their influence?
- In specific terms what do donors need to do differently in order to be more effective in influencing change?

The following sections of this paper discuss these questions.

## Ethics and legitimacy

**“...To what extent and through what means is it right or legitimate for donors to attempt to influence political processes in the countries in which they work?”**

The New Political Economy Perspective raises difficult questions of ethics and legitimacy. To what extent and through what means is it right or legitimate for donors to attempt to influence political processes in the countries in which they work? High levels of donor involvement can be criticised by reluctant recipient governments as undermining national sovereignty and the accountability of governments to their own citizens. Heavy-handed conditionality has proven to be counterproductive where it has galvanised domestic opposition to reform imposed by outsiders. For these reasons development agencies try to avoid the appearance of intruding in domestic political affairs.

However, we would argue that the influence of development assistance on domestic political processes is unavoidable, especially where governance is weak. Influencing is necessary to ensure aid effectiveness, and is legitimate when applied sensitively within the parameters of agreed principles and norms. There are several strands to this argument, some of which reflect ethical concerns while others are more practical.

First, in truth donors cannot avoid being political actors. In the past aid has often been presented as a politically neutral package of financial and technical support described in largely technocratic language (e.g. good governance, capacity building and institutional strengthening).<sup>5</sup> However, this detachment from politics has always lacked plausibility. Donors increasingly acknowledge that transferring resources into any political context will affect the balance of power.

Second, it is increasingly acknowledged that good governance and state capacity are essential conditions for aid effectiveness. NPEP analysis demonstrates that these conditions are centrally located within the domestic political economy. Donor agencies have a responsibility to tackle these issues since they themselves are accountable for the effective use of aid funds.

Third, recipient governments have committed themselves to improvements in governance through numerous international treaties and in national policy documents, such as PRSPs. They can be called to account for performance against these commitments, not only by their own citizens, but also by international partners, who have, notably at the Monterrey Conference and the Gleneagles G8 Summit, signalled a commitment to scale up aid and provide debt relief in exchange for improvements in governance. This implies that the development assistance partnership should be viewed not as a form of neo-colonial imposition, but rather as a contractual relationship characterised by mutual accountability.

Fourth, challenges have increasingly been made to the exclusivity of absolute national sovereignty. Aid relationships are no exception, and efforts to help eradicate poverty are now seen as an international effort. In an era where weak and failing states are increasingly perceived as an international security risk, good governance and state-building are not only an important development objective, but are increasingly viewed as part of a broader foreign policy agenda.

In sum we would assert that constructive engagement between donors and recipients on issues of accountability and transparency is essential for effective aid. The most difficult question is how to engage in a manner that is at the same time effective, sensitive to national sovereignty, and supportive of the accountability of governments to their citizens.

## Underlying principles for the design of influencing strategies

The most appropriate role for donors in facilitating better governance and more pro-poor policies is to help strengthen the *accountability of governments to their own citizens* and to create a more *enabling environment for constructive state-society relations*. The aim should be to promote a more inclusive and better-informed type of politics that is likely to lead to policy and institutional outcomes that are favourable to pro-poor development.

## The Political Impacts of Aid

Several Drivers of Change Studies have highlighted the political impact of aid:

- The Zambia study suggested that aid has helped to fund political patronage – with mixed and complex consequences. Economic performance has been negatively affected, but patronage may have the positive effect of providing the glue that helped to hold a diverse society together over several decades in a conflict-ridden region.<sup>6</sup>
- The Malawi study suggested that donors have responded to the incapacity of the state to make policy by assuming a policy making function themselves. This has resulted in a plethora of policy documents, but has undermined the ability of government to make policy. The report highlights the ineffectiveness of donor conditionality, which has resulted in an on/off pattern of policy based lending that has bought nominal compliance followed by non-implementation.<sup>7</sup>
- The Kenya Drivers of Change report highlights another type of distortion caused by donor aid. During the 1990s donors became increasingly disillusioned with aiding the Moi government, which had frequently backtracked on its reform commitments. However, the resulting shift towards funding civil society organisations created its own problem: the proliferation of “briefcase NGOs” established with little purpose other than to gain access to donor funds.<sup>8</sup>

All of these examples demonstrate potentially damaging effects of aid on local political processes. They illustrate that donors need a better understanding of these effects in order to avoid doing inadvertent harm.

These principles imply a different kind of influencing strategy than has commonly been applied in the past. Past experience has shown that attempts to influence government *directly* through financial leverage and conditionality have been ineffective in many circumstances. Hence, donors need to think more strategically about *influencing the broader system of incentives and restraints* acting on powerful interest groups and other key change agents. NPEP analysis indicates that the most powerful and durable incentives arise from citizen pressure and civil society scrutiny. The main priority for donors should therefore be to support institutions and processes which further these objectives, including *sustained pressure for improved governance at national and decentralised levels*. This requires four main types of activity:

- Making information available and fostering transparency. There is a need to improve the quality and availability of public information on government policies and performance. This requires support to institutions within and outside the public sector, such as statistical services, the independent media, and those carrying out monitoring and research work.
- Helping to strengthen vertical accountability. The most effective ways to strengthen vertical accountability between governments and citizens are to work to enhance the effectiveness

of parliamentary processes and institutions, and to strengthen key civil society organisations (broadly defined to include advocacy and service delivery NGOs, community-based organisations, the media, trade unions, business associations, professional associations, and independent research centres) to help build their capacity in policy analysis and advocacy, monitoring government performance and holding political leaders to account.

- Helping to strengthen horizontal accountability. There are opportunities to strengthen formal institutions of government that provide horizontal accountability, in particular, the judiciary, parliaments, electoral authorities and public auditors.
- Helping, where conditions are favourable, to strengthen democratic processes and institutions as a means to better accountability. Supporting and monitoring the electoral process and the institutions that oversee it can play an important role in strengthening and defending democracy, but it is important to avoid simplistic approaches, as there are many poor countries where democratic principles run counter to influential socio-economic structures and value-systems. Helping build stronger civil society institutions is often an essential prerequisite, but there will also be

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cases where there is scope for encouraging political parties to move from personality- to issue-based politics.

The key to all four of these approaches is that donor influence will be more effective where it operates indirectly through other change agents, who have greater legitimacy and political weight in the domestic arena. Working in this way

will require donors to support a wide range of actors across civil society, who, whether singly or in broad coalitions, can apply pressure on political leaders to bring about change. Donors are increasingly emphasising the key role of civil society in creating pressure for change. However, their support to civil society has tended to remain vague, unfocussed and has often had little effect.<sup>9</sup>

## Bangladesh civil society as promoters of change

Bangladesh is a parliamentary democracy with a vibrant civil society, a robust press, impressive development NGOs (such as BRAC and Proshika), a dynamic private sector, active public sector trade unions and a number of research centres that are independent of government. Fundamentalist Islamic organisations are also active. However, Bangladesh scores very low on the World Bank Institute's governance index and is ranked by Transparency International as one of the world's most corrupt countries. The simple explanation is that Bangladesh has a very hierarchical neo-patrimonial society that has strongly embedded systems of personalised social relations that few can escape. These informal mechanisms of patronage and corruption have penetrated, politicised and captured most 'modern' state and civil society institutions. Bribery and extortion are endemic and political violence is commonplace. The rule of law is seriously defective and biased in favour of the powerful. Parliament is a mere cipher for the ruling party.

The donors have for years pressured the government for governance reform with minimal success. But in doing so they have largely ignored the potential role of civil society in campaigning for reform. Over time donors could have contributed much more to strengthening the capacity of civil society organisations, the media, professional and business associations, and independent research centres as the main sources of demand for reform. And they still can. It would require a sophisticated analysis of the strengths and weaknesses of these organisations, the elaboration of an appropriate assistance strategy, the identification of champions of change that could be supported, and close co-operation among the main donors. Such an approach would need to be linked to a programme of judicial reform and the enhancement of the accountability role and capacity of parliament.

## Implications for aid policy

These principles suggest a rather different approach to the past, and have far-reaching implications for aid policy, programming and management. There is a need for greater understanding of the domestic political and economic context, and sensitivity to local conditions. Donors should be less dogmatic in their approach to reform, and should be more willing to accept second best policies and political compromises where these are likely to garner broad-based support.<sup>10</sup>

Adopting a realistic time scale is also critical. Some policy and institutional changes can take place rapidly. However, most sustainable and long lasting changes will take effect only over a period of years. A long-term view is essential that lowers expectations of quick wins, and recognises the need for persistence, clear vision, a readiness to keep fine-tuning the support strategy in the light of experience, and a sustained effort over long periods.

Donors will need to give greater priority to working with a range of different non-state actors. This may be at odds with some recent tendencies in aid policy. The 2005 Paris Declaration is based on the principle of donors harmonising their efforts in support of the lead of the partner government.<sup>11</sup> While coordination and harmonisation are sound principles, they do not address the problem that the partner government may sometimes be an obstacle to introducing and implementing more pro-poor development policies. For this reason it is important that in adopting the Paris Principles donors do not neglect working with different civil society organisations. Such an outcome would be a regrettable reversion to the overly state-led approaches to development of the 1970s.

Adopting the principles advocated in this paper will not be simple, and will create real dilemmas. There is an immediate tension between pressures to provide more aid to Africa in order to effect an improvement in those MDGs, such as health and education, where aid can have a short-term

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impact, and generating lasting improvements in governance and achieving sustainable and higher levels of wealth creation. There are good reasons to increase spending on essential social services and basic infrastructure in order to accelerate progress towards the MDGs. However, donors need be fully cognisant of the risks involved in channelling resources through those governments whose incentive systems are geared towards patronage rather than performance. At the very minimum, a big push in public investment in Africa needs to be matched by an equally vigorous effort to support different civil society organisations and to help equip them to scrutinise the use and impact of these aid funds.

It is also important to acknowledge that promoting transparency and accountability through civil society pressure is not a risk-free strategy and may not always be effective in the immediate term. Clearly, civil society organisations represent a wide range of interests. Indeed some are drawn from or are linked to precisely those powerful interest groups that are currently impeding the promotion of a more pro-poor development strategy. Also, there are risks in working with change agents and coalitions that can prove unstable and unpredictable, which may in some cases complicate donor-government relations. In spite of effective citizen pressure, change may be blocked by resistance from special interest groups, creating sometimes intractable obstacles to development. Where such resistance is encountered, strategies need to be put in place to strengthen the hand of pro-reform groups to overcome, circumvent or sideline the resistance of entrenched interest groups. However, in confronting these interests it may be impossible for donors to avoid the perception of interference in domestic politics. Difficult problems also arise where local pro-reform processes and partners are weak or non-existent, notably in some of the fragile states that are of central concern to development agencies. In such cases direct modes of influence take on greater importance.

There is no common template or blueprint. Different approaches will be required in different country contexts, and will in particular reflect local sensitivities toward external agencies, the strength of civil society, and the breadth and depth of donor influence. In some cases a more cautious approach will be required, which would not seek overt political influence, but would try as a minimum to ensure that donor programmes “do no harm” (e.g. do not create perverse incentives that enable hard reforms to be delayed) and are focused on areas where political resistance is less

likely to be encountered. In other cases, a more activist approach might be possible that would step up donor engagement with different civil society organisations working to promote political and economic change. All major donors will need an in-depth knowledge and understanding of the dynamics of the political economy of each country, as well as a common understanding of how donors could interact.

## Aid programming and instruments

The New Political Economy Perspective provides a set of principles that need to be built into all aspects of aid allocation, programming and management. The following paragraphs highlight the main issues starting with broad issues of aid allocation and priorities, and moving on to the design of specific instruments. In most cases radical changes in existing donor practice are not called for, but rather the systematic use of NPEP in identifying priorities for donor support, and in informing the design and application of aid instruments.

**1) Aid allocation and conditionality.** We have argued that policy conditionality, as practised in the past, has been inadequately applied, and has often proven to be ineffective and counterproductive. However, we would not suggest that donors should abandon all forms of conditionality. Some mechanism is unavoidable to express mutual agreement by donors and recipients governments for the use of funds whether or not the word ‘conditionality’ is retained. We would suggest that political (or governance) conditionality is likely to be needed in some circumstances, and that the allocation of development aid to governments and public agencies needs to be more dependent on monitorable progress being achieved on governance reform.<sup>12</sup>

Difficult issues of design will arise. Donors need to take particular care that their actions and the activities they support reinforce rather than undermine the accountability of governments to their own citizens. Stop-go conditionality should be avoided and donors should instead be more flexible in adjusting aid levels according to progress in governance reforms. In difficult political economy contexts, the capacity to absorb large volumes of aid is often limited, and where it is, donors should focus attention on indirect sources of influence that do not require large amounts of money. Switching resources from government to non-governmental actors would be called for in some cases.

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- 2) **Working with change agents.** In recognition of the role of **parliaments** and a range of **civil society organisations** in creating pressure for public accountability, much greater priority needs to be given to strengthening their research, public information and advocacy capacities, and to their own local accountability and governance. Partners should be selected on the basis of their values and aims, their ability to think and act strategically about how best to promote broad-based development, and their potential to effect change. In making these judgements there is a need for a better understanding of the complex character of civil society in different country contexts.

Donor support should also be focused on reform elements within government, for example by providing low-profile technical assistance. More generally there is a need to be more active in (re)building civil service capacities in the analysis, design and implementation of policies.

Similarly, more attention needs to be paid to ways in which local **research communities** and **investigative media** can be strengthened, along with the statistical services.

Donors may also find ways of developing partnerships to harness the human and financial resources within **diaspora communities**. Diasporas are exposed to new ideas, and have a degree of legitimacy within their countries of origin, where they are likely to be less subject to domestic political pressures than are local groups.

- 3) **Working with the non-poor.** The NPEP suggests that a broad approach to poverty reduction is required that considers the role of non-poor groups in promoting policy and institutional change. This has important implications for the design of donor assistance strategies, which in the name of poverty reduction have often been heavily oriented towards basic service provision. For example, in the education sector donors have in recent years tended to focus support on primary education, and to a lesser extent secondary, and have tended to ignore the role of tertiary education in creating a more informed population and building in-country capacities to engage in policy analysis and debate.
- 4) **Supporting regional organisations** will have an important role to play because they are often seen as a legitimate basis for external influence. NEPAD's African Peer Review Mechanism in particular shows some promise as a source of pressure on national governments.

- 5) **Choice of instruments.** The New Political Economy Perspective can help to inform choices about the appropriate mix of aid instruments in different circumstances. It is particularly useful in informing risk analysis to guide, for instance, the transition towards budget support, reducing the likelihood of unintended political effects. Budget support needs to be assessed in terms of how political processes may influence the use of resources and how those resources will in turn affect political processes (for example, by increasing the scope for patronage).

## Implications for donor agencies' ways of working

This approach to be fully effective requires improved donor coordination around a common vision. Conflicts and short-sighted competition among external agencies undermine their collective influence. However, in practice different interests and perspectives between donors mean that it will be difficult to reach agreement on all political issues. There will be many points of legitimate disagreement on how to interpret and address situations where governance is flawed. It needs to be explicitly acknowledged that in such contexts the efforts of one donor, or a group of like-minded donors, risk being undermined or reduced by the actions of others. For these reasons, a more strenuous and persistent effort is needed than has been the case to date to work together to share analysis of the socio-political constraints to effective aid, resolve differences of approach, and jointly support initiatives to strengthen governance and accountability.

Capacity for NPEP-type analysis and monitoring needs to be strengthened within donor organisations. This requires greater country knowledge, more use of in-country expertise, and less turnover of expatriate staff in country offices.

Lastly, donor agencies need also to be more aware of their own roles as political actors. The incentives to which they themselves are subject (e.g. disbursing more, downward pressures on staff numbers, and expectations of quick wins) may be contrary to the main lesson for donors emerging from NPEP analysis. This is that if aid is to be effective there is no alternative to a careful and long-term approach to supporting change based on staff-intensive understanding of the incentives affecting the behaviour of their partners.

<sup>1</sup> 'Tackling the Political Barriers to Development: The New Political Economy Perspective,' Policy Practice Brief No.1, January 2007 <[www.thepolicypractice.com](http://www.thepolicypractice.com)>

<sup>2</sup> 'Review of the uptake of the Drivers of Change approach', Nigel Thornton and Marcus Cox, Agulhas Ltd.. Report for DFID, 2005.

<sup>3</sup> In Nigeria for instance, this can be seen in two recently-designed programmes: the Coalitions for Change programme and the Shared Growth Framework.

<sup>4</sup> 'Using Drivers of Change to improve aid effectiveness', Briefing Note, DFID, November 2005 <<http://www.gsdr.org/docs/open/DOC83.pdf>>

<sup>5</sup> An important exception to this characterisation is USAID, which has always been explicit in stating its political objectives. See Natsios, A.S. Five Debates on International Development, The US Perspective, Development Policy Review 2006, 24(2) 131-139 <<http://www.blackwell-synergy.com/toc/dpr/24/2>>

<sup>6</sup> 'Zambia --- Drivers of pro-poor change: an overview,' Alex Duncan, Hugh Macmillan and Neo Simutanyi'. OPM, March 2003, (p.vi). <<http://www.gsdr.org/docs/open/DOC47.pdf>>

<sup>7</sup> Booth, D. et al (2006) Drivers of Change and Development in Malawi, ODI Working Paper 261 <[www.odi.org.uk/publications/working\\_papers/wp261b.pdf](http://www.odi.org.uk/publications/working_papers/wp261b.pdf)>

<sup>8</sup> Ng'ethe, N., Katumanga, M. and Williams, G. (2004) Strengthening the Incentives for Pro-poor Change: An analysis of Drivers of Change in Kenya <<http://www.gsdr.org/docs/open/DOC24.pdf>>

<sup>9</sup> See R. Riddell (forthcoming 2007) Does Foreign Aid Really Work? Oxford University Press, Oxford, pp. 301-6.

<sup>10</sup> Unsworth, S. (2005) Better Government for Poverty Reduction: More Effective Partnerships for Change

<sup>11</sup> See <[http://www.oecd.org/document/18/0,2340,en\\_2649\\_3236398\\_35401554\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/18/0,2340,en_2649_3236398_35401554_1_1_1_1,00.html)>

<sup>12</sup> In this respect, the 'quality of governance' assessments introduced in DFID's 2006 White Paper 'Making Governance Work for the Poor' may be a worthwhile innovation.

## About us

The Policy Practice analyses policy options and supports institutional reforms in developing countries. We advise governments, development agencies, civil society organisations and companies, providing practical, innovative solutions based on realistic assessments of the challenges and opportunities they face. Our multi-disciplinary approach uses 'The New Political Economy Perspective' to understand the processes of socio-economic change and their effect on the implementation of development programmes.

This paper is the first in a series of policy briefs intended to share our insights on an ongoing basis, in a form that is easily digestible and readable to policymakers, experts and others in the development field. For further information please contact **Alex Duncan** (alex.duncan@thepolicypractice.com), **Pierre Landell-Mills** (pierre.landell-mills@thepolicypractice.com) or **Gareth Williams** (gareth.williams@thepolicypractice.com).

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