

Is Political Analysis Changing Donor Behaviour?¹

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Introduction

Eight years ago, when DFID first started work on ‘Drivers of Change’, politics and political economy were barely in the donor vocabulary. Today there is increasing rhetoric about politics, and good quality analysis is being done, including at sub-national and sector level. It is making some impact - occasionally at a strategic level where policymakers face a clear crisis; more often in shaping project design and aid modalities. But the impact is fragmented and the default position is still technocratic. Political analysis shows that political context and process is central to shaping the incentives of politicians and policymakers for or against progressive change. This directly challenges conventional donor approaches that assume the problems are primarily financial and technical, and that the political behaviour of their ‘partners’ can be influenced by ‘dialogue’ and conditionality. However there is as yet little evidence that political analysis is prompting donors to question these underlying (mostly implicit) assumptions about how development happens.

Why is this, and does it matter? There are powerful intellectual and institutional barriers that make it difficult for donors to take on board the lessons emerging from political analysis. Moreover the two interact - bureaucrats tend to circumscribe their thinking in accordance with what they believe the market will bear. This matters because research increasingly emphasises that there are no formulas for achieving good development outcomes - what works depends on country-specific realities and opportunities. So long as political analysis is seen as an optional add-on rather than as central to the whole development process, agencies will not make the necessary investment in understanding the political dynamics at work in the countries in which they operate, or make fundamental changes in their own organisation, values, attitudes and behaviour. A more partial approach to political analysis might allow donors to operate in more politically savvy ways and to do less harm, but the temptation to revert to technocratic, supply driven approaches will be hard to resist, and opportunities will be missed.

Approaches to Political Analysis

The interest here is in political (or political economy) analysis that explores the underlying factors (including history, geography, sources of government revenue, deeply embedded social and economic structures) that shape formal and informal relationships between the state and organised groups in society, and thus the incentives that are driving politicians and policymakers, and the potential pressures for or against progressive change. This is in contrast to more normative approaches to governance assessment that focus on how formal institutions are performing, or political reporting of embassies that tends to be preoccupied with current events and actors.

¹ This paper is based on the author’s collaboration with a range of donor agencies, including with DFID and the Netherlands Ministry of Foreign Affairs to develop and implement analytical frameworks for political analysis, and more peripheral contact with the World Bank team developing problem driven governance and political economy analysis. It also reflects experience of working with DFID and other donors on links between governance and growth; and with the OECD/DAC task teams on Taxation and Governance and Fragile States. The opinions offered are of course purely personal.

There are different viable approaches, ranging from talking to well-informed local sources to careful commissioning of studies from political scientists with relevant country expertise. DFID initially adopted a broad framework, looking at structures, institutions and agents, but leaving individual country offices to shape detailed approaches. The Dutch Ministry of Foreign Affairs has developed a more structured approach², which has the benefit of offering a more explicit methodology, but which has had a mixed reception from embassies. The World Bank has used political economy analysis of policy reform at a sector level as an entry point for exploring broader issues. All of these approaches can be used in conjunction with other types of analysis (conflict or gender analysis, growth diagnostics, institutional analysis), and at different levels (national, sub-national, sector or policy specific).

There are particular challenges in 'fragile' states. These include lack of reliable data, and how to keep pace with rapidly changing situations. Drilling down from a macro level analysis to more detailed, policy relevant analysis requires a particular mix of skills -- country knowledge, sector expertise, understanding of political dynamics -- and a lot of application. Informal factors (for example the black economy) can be hard for outsiders to get at. There are tricky issues involved in deciding whether to undertake analysis jointly with governments, other donors or other departments of one's own government (this depends on the local context, and the primary purpose of the analysis). But overall, experience suggests that donors can do political analysis, and are becoming increasingly skilled at it.

Limited Impact

However political analysis seems to be having virtually no impact at a corporate level. It is not changing the underlying assumptions, organisational priorities or operational approaches of any major donor agency. As David Booth has pointed out³, the Paris declaration and the Accra conference drew on lessons learned from evaluations of aid effectiveness, but the underlying approach to issues of ownership and alignment is still essentially technocratic. There is little focus on the way political context and systems shape incentives of either donors or their partners, or recognition that "change in political direction on the recipient side of the aid relationship is more fundamental, and far more intractable, than most participants in the Paris/Accra process are prepared to admit". A striking illustration of how superficial the impact of political analysis has been is the British government's 2006 White Paper, which opens with a bold claim that "Politics determines how resources are used and policies are made", but goes on to advance a technocratic agenda for enhancing growth and improving services, with barely a mention of politics.

Political analysis is occasionally having a strategic impact at a country level, particularly where policymakers face a clear crisis. In 2002, a Strategic Conflict Assessment carried out by DFID in Nepal raised fundamental questions about the underlying premise for aid⁴. In particular, it challenged the assumption that

² "Framework for Strategic Governance and Anti-corruption Analysis", prepared by the Clingendael Institute and published by the Netherlands Ministry of Foreign Affairs, the Hague, July 2008

³ ODI briefing paper 39, July 2008: "Aid Effectiveness after Accra: How to Reform the 'Paris Agenda'".

⁴ Case study prepared for the OECD/DAC conference on governance assessments, February 2008 by Mark Segal, DFID.

persistence of poverty was due to lack of government capacity, and could be addressed by strengthening public institutions and stimulating demand from poor people for improved services. Instead it identified the actions and behaviour of the elite-dominated government, bureaucracy and aid donors as intrinsically part of the problem. The result was a significant change in strategy, which addressed causes of conflict much more directly, and was influential in shaping the response of other donors.

A more common experience is that political analysis can prompt country programme managers to adjust their expectations, review overall priorities, and make changes in project design and aid modalities. One Netherlands Embassy that conducted a Strategic Governance and Anticorruption Analysis concluded that its previous country strategy had been too ambitious: "Our circle of interest was much bigger than our circle of influence". The revised strategy focused on identifying the area of overlap between the government's interests and those of the embassy, with anti-corruption work mainstreamed with a view to changing the "rules of the game" over the longer term rather than directly confronting a neo-patrimonial system.

Donors are being more realistic about the prospects for system-wide civil service reform, and adopting more incremental approaches. There is increasing interest in participatory monitoring. New programmes are being developed -- for example DFID's support for tax reform in Rwanda and Kenya, incorporating a governance perspective; and assistance to political parties in Latin America. The World Bank is looking for more politically feasible approaches to reform of major utilities. State-level political analysis is informing DFID programming in Nigeria and Brazil. Lessons learned from the EITI are informing a new initiative, the Medicines Transparency Alliance that aims to bring together government, civil society and private sector stakeholders to disclose information on the price, quality and availability of medicines.

More generally, there is a noticeable increase in the scope and quality of internal debate among donor staff based in-country and among professional groups, reflecting greater awareness of neo-patrimonial political systems and their impact on development. There is also some informal, inter-agency discussion of these issues. But the debate is fragmented, and there seems to be little appetite at higher levels of the bureaucracy for drawing the threads together. There is a tendency to regard the experience of a particular country -- for example, Nepal -- as *sui generis* and therefore of little relevance elsewhere. There is widespread debate about budget support, but with a focus on fiduciary risk and aid effectiveness rather than on the broader impact of aid modalities on local political incentives. In short, while political analysis is influencing specific aspects of donor activity, it is not prompting a more fundamental reappraisal of the implicit model of how development happens. Donors continue to react to the evidence that their interventions are not having the desired outcomes by resolving to "redouble" their efforts, rather than asking themselves whether they have really understood the nature of the challenge they are dealing with.

Does This Matter?

A "glass half full" interpretation of experience to date would emphasise that political analysis is starting to induce greater realism, a more politically savvy approach to policy reform, and some serious intent to work harder at implementing Paris

Declaration principles of harmonisation, ownership and alignment. But even that modest progress will be difficult to sustain without a more radical reappraisal of the underlying processes involved. Unless they recognise the fundamental importance of local political process, donor agencies will not prioritise country knowledge and make the necessary organisational changes (to recruitment, promotions, postings) to support this. They will not build the kind of local networks that would allow them to engage effectively in policy and political debate. They will not be prepared to make different trade-offs (for example between short-term fiduciary risks of increasing budget support as against longer term benefits of shifting local incentives). They will undervalue the importance of issues such as increasing the predictability of aid (this matters not just because of its direct impact on programme outputs, but because it has the potential to change incentives around planning, budgeting and demands for local accountability in the longer term). They will not invest sufficiently in longer term strategies to support local policy analysis, data collection and dissemination. They are unlikely to get serious about addressing risks of aid dependency.

Operational, Institutional and Intellectual Barriers

To many interested observers outside the development community, the proposition that development challenges are fundamentally political seems obvious. So what is stopping development practitioners from taking this on board? Three factors seem to be at work:

- i) Political analysis is seen as too academic, offering little guidance about operational implications.
- ii) There are strong institutional incentives within aid agencies (and development NGOs) that reinforce the status quo.
- iii) These interact with other, more conceptual/ intellectual barriers.

As regards the first of these, it is true that some academics seem able to write only for other academics; but the problem is also that policymakers expect to be able to get to grips with political science concepts with little effort (whereas non-economists know that they must work at understanding economics). It is also true that political science research still offers only tentative guidance about how political development happens, and its links with economic and social development. Moreover there is seldom a direct read-across from political analysis to specific interventions or policy choices. Making the links between analysis and operational issues involves a more iterative process of bringing together a different way of thinking about development and processes of change, with specific country and sector knowledge. Political analysis tends to reveal the messiness and complexity of development processes, and highlights the need for further, in-depth studies (thus involving donors in almost constant operational research). They have simultaneously to accept that external players have much less influence than they often suppose, and that they need to invest much more time and effort in understanding the environment in which they are operating. This is not an easy sell. However, as discussed below, political analysis also suggests new operational opportunities for donors, many of which are being missed.

The institutional barriers are well recognised in the relevant literature. Bilateral agencies are headed by politicians, who tend to have short time horizons. They have strong incentives to demonstrate progress (for example in achieving the Millennium Development Goals) and to tell an optimistic story to their own taxpayers. Agencies

have to reckon with their own domestic lobby groups and legislatures: these provide some essential accountability otherwise lacking, but may be self interested, or very normative, or take simplistic positions. So it is difficult for agencies and their political leaders to acknowledge the depth and intractability of the challenges involved in addressing issues such as corruption and human rights. All of these problems are compounded when officials are under pressure to spend large amounts of new money within short timescales. Moreover the engagement of rich countries with poor countries is inspired by a mix of motives and objectives -- security, commercial, diplomatic as well as developmental -- and there are some obvious tensions between them.

Less obviously, perhaps, the whole institutional ethos of development agencies is one of experts bringing solutions. Many are highly value-driven – they want to eliminate poverty, curtail corruption, protect human rights, and nurture democracy. Agencies recruit and value technocratic expertise, not country knowledge. All this means that they tend to be more focussed on policies than on process. Until recently they employed few political scientists. A historical perspective on development is almost entirely lacking. Donors are confronted in most developing countries with public institutions that look like Weberian models: this encourages "gap analysis", or a preoccupation with why these formal institutions are not working as they do in OECD countries, and how to make them work better (through resources and technical assistance to “build” state capacity and "strengthen" civil society organisations, coupled with dialogue or aid conditionality to gain acceptance of the “right” policies). Over the last 10 years a whole new sector of development activity has evolved in response to concerns about governance. This is largely technocratic in approach, and often highly normative. It does not on the whole encourage reflection about underlying political realities.

Donors are not stupid, and they are not unaware of the way in which patronage driven political systems inhibit development. There was genuine excitement within DFID during the early stages of developing the ‘Drivers of Change’ approach that issues normally reserved for informal, after-work conversations were being recognised and legitimised. But donors are operating in an environment that values optimistic action rather than reflection, and which makes it difficult to acknowledge the limited scope for outsiders to influence events in the short to medium-term. So despite some genuine interest in gaining a better understanding of politics, people easily revert to the comfort zones offered by their own professional expertise.

Finally, political leaders of bilateral agencies face their own intellectual barriers. They often think they understand the politics of development because they understand how their own political systems work. This can be profoundly misleading, and encourages superficial thinking about how to secure political "commitment" from development partners as a quid pro quo for assistance.

Entry Points

Who or what could shake the kaleidoscope? Work in different sectors of donor activity – including fragile states, governance and growth, the political economy of sector reform, and global drivers of bad governance -- is pointing in the same direction. It emphasises the importance of informal political processes and relationships, and the interdependence of political, social and economic pressures for

change. Taken together these areas of work could provide a critical mass of compelling evidence that a fundamental rethink is needed. But so far the political vision to draw the threads together seems to be lacking.

Research into *fragile states*⁵ is drawing attention to very basic elements of state building: the formation of elite pacts; the establishment of security and the need to balance that with action to build state legitimacy and accountability; and the political processes involved in negotiating and sustaining a social contract. The implications seem clear: the focus needs to shift from external players to local political actors, and from performance of formal institutions to the underlying issue of how to maintain and establish political order. Yet even in obviously fragile situations (Afghanistan springs to mind) too many other interests are often at stake for this message to be clearly heard. And once stability (however fragile) has been re-established, the temptation to revert to technocratic approaches seems overwhelming. For instance, a recent joint analysis between government and donors in Rwanda focused narrowly on governance issues (Ruling Justly, Government Effectiveness, Investment Climate and Corporate Governance), coming up with 45 indicators to measure different aspects of the performance of formal institutions. Applying a state building lens to this work, and taking account of the interaction of economic, social and political factors would have suggested some very different priorities.

Recent research and debate⁶ among economists about links between *governance and growth* also point to the need for a switch in focus -- away from a preoccupation with strengthening formal institutions to protect property rights and sustain competitive markets, towards a better understanding of the incentives driving the behaviour of politicians and investors, and the links between them. Research suggests that while in the very long-term there appears to be a strong correlation between effective formal institutions and growth, the links are much weaker in the short to medium term. Some countries with weak formal institutions (notably China) have achieved good or even spectacular growth. Moreover there are increasing doubts about the feasibility of achieving systemic reform in the short to medium term. Instead there is a growing willingness to recognise the way personalised, exclusive relationships between holders of political power and potential investors shape incentives for politicians to nurture growth (or alternatively to predate), and incentives for holders of capital to invest.⁷ A particularly striking recent contribution is the work of Douglass North and others drawing attention to the fundamental differences between the "limited access orders" prevailing in developing countries (where political elites create and manage economic rents in order to manage potentially violent opposition), and "open access orders" in OECD countries (sustained by open, competitive political and economic institutions). These insights may not be particularly new, but they do emphasise the very different political reality shaping incentives of policymakers, and their scope for

⁵ This has been picked up by donors, for example in a paper prepared for the OECD Fragile States Group : "From Fragility to Resilience: Concepts and Dilemmas of Statebuilding in Fragile States", January 2008; and in a DFID paper "States in Development: Understanding State-building" by Alan Whaites, 2008.

⁶ See for example a recent World Bank publication, July 2008: "Governance, Growth, and Development Decision-Making" containing reflections by Douglass North, Daron Acemoglu, Francis Fukuyama and Dani Rodrik.

⁷ See for example "Idealism, Realism and the Investment Climate in Developing Countries", IDS Working Paper 307, June 2008 by Mick Moore and Hubert Schmitz.

action, in different contexts. The fact that this work is being led by prominent economists may help to secure them a hearing from fellow economists.

Recent *problem driven political economy analysis* undertaken by the World Bank provides stark evidence of the reasons for repeated failures to reform institutions or policy in particular countries and sectors. Once again it highlights the informal, political constraints to implementing an “optimal” reform agenda, and the need for detailed understanding of country and sector context to support the search for politically feasible strategies. This work offers yet another entry point for challenging conventional assumptions, and one that might in particular engage the interests of technical experts. The advantage is that it is closely aligned with operational challenges faced by World Bank staff; the risk is that it could quickly revert to being technocratic and supply driven. (For example, whatever happened to the 2004 World Development Report on “Making Services Work for Poor People”)?

Finally, the increasing interest in *global initiatives* to tackle corruption, regulate the behaviour of trans-national companies, control the trade in conventional arms, and increase transparency in payments to governments from the natural resources sector should prompt donors to shift their focus from reform of formal institutions towards more informal political processes. Chapter 3 of the British government’s 2006 White Paper explicitly recognises that incentives for “good governance” in poor countries are heavily influenced by the international economy, the behaviour of other governments, and the private sector. There is clear potential here for action that could engage both the public and the private sector, and in the longer term prove beneficial to both rich and poor countries. It remains to be seen how vigorously OECD governments will pursue it, and whether they will make the links between such action and its impact on the institutional incentives driving politicians and businesses in poorer countries.

Operational Strategies

Donors often complain that political analysis gives them a good understanding of problems but offers little by way of solutions. This is too pessimistic. Political analysis does imply a more limited direct role for donors. But if they were able to accept that development involves a local political process of bargaining between public and private actors rather than an externally led process of capacity building and policy reform, they would start to see new opportunities. Instead of direct, frontal assaults on vested interests, they might develop more effective, indirect strategies to help change the institutional incentives of politicians and policymakers. Here are some ideas:

- They should attach real urgency to expanding action at a global level to limit the damaging impact of rich country governments and businesses on the quality of governance in poor countries.⁸ Some important measures are already on the OECD agenda (corruption, money laundering, control of small arms, conflict diamonds, the Extractive Industries Transparency Initiative, the Forest Law Enforcement, Governance and Trade Regulation). Others are under development (the Medicines Transparency Alliance referred to above). More needs to be done to evaluate the impact of such measures on incentives

⁸ See Mick Moore and Sue Unsworth, Review of Britain’s 2006 White Paper in Development Policy Review, Volume 24, Number 6, November 2006

of governments and businesses in poor countries. The significance of such initiatives is however that they have the potential to make a strategic impact, they can work with the grain of private sector interests, and they are things that OECD governments can influence directly.

- Donors should prioritise country knowledge. This might require them to reduce the number of bilateral programmes or otherwise rationalise country coverage, and to make some far-reaching changes in human resource management policies. This could be uncomfortable, but it is do-able. Doubling the amount of time that individual members of staff currently spend in any one country would be a good starting point.
- Donors could do much more to limit the potential damage of their own behaviour on local incentives for progressive change. There is good recent research by ODI and others⁹ into the way different aid modalities can support local "ownership" of development efforts by working through and helping to strengthen local policy-making capacity and management systems. Their recommendations, which include taking a much longer term and less risk-averse view of general budget support, deserve to be taken seriously. In the past, simplistic and over-ambitious claims have been made for how budget support could strengthen domestic accountability. But if expectations were more realistic, then offering more predictable funding channelled through government systems could support more "institutionalised" planning, budgeting and expenditure management processes. This in turn could have an impact a) on government's ability to make and implement effective policies, and b) on incentives for different groups to organise to try to influence those processes and demand greater accountability.
- Donors should reassess the way they support civil society. Too much of what they do involves a scattergun approach, based on an optimistic assumption that strengthening the counter power of progressive civil society activists is bound to do some good, without thinking through the social and political processes involved in achieving this. Firstly, donors should be engaging with a broader range of groups: not just NGOs that share a poverty reduction or rights agenda, but local organisations that are membership based, have the capacity to organise effectively and have interests (in a range of public or semi-public goods) that overlap with those of donors. These could include business, farmers, professional associations, taxpayer organisations, religious groups, women's groups, trade unions and journalists. To do this effectively, donors would need to make adjustments to their language, and behaviour. Secondly, donors should be paying attention not just to strengthening the demands of civil society on government, but to the interaction between the two. Governments need citizens' organisations to aggregate interests and channel demands if they are to mediate effectively, and design and implement good policies. Societal groups will only organise if they feel this will be worthwhile (indeed a major problem in many developing countries is that citizens are disengaged from their own government). So the issue that donors need to bear in mind in designing aid modalities or project interventions is how these might affect the opportunities and incentives for constructive state-society

⁹ Good Governance, Aid Modalities and Poverty Reduction, a 2 year research programme commissioned by the Advisory Board for Irish Aid, led by ODI with the Christian Michelson Institute and the ESRC (see www.odi.org.uk).

engagement. In particular, how could action by the state (to make tax regimes fairer, budget processes more predictable and transparent, policy processes more consultative) stimulate organisation of citizens?

- Linked to this, donors should prioritise issues of taxation and public expenditure management. Tax in particular is a highly strategic issue, with the potential to mobilise taxpayer groups that have the interest and capacity to engage in bargaining with government, and to demand policy changes as well as increased accountability. There has been recent work by the OECD / DAC on links between taxation and governance, which emphasises that how tax is collected matters, not just how much.¹⁰ Moving from a situation where taxation is often narrowly based, regressive, and coercive is challenging, especially in poor agrarian societies with large informal sectors. But a recent initiative by senior African tax officials provides a basis for action. The communiqué¹¹ from a conference in Pretoria (in August 2008) highlights the links between taxation and state building, and the need to mobilise domestic tax resources as a key mechanism to allow developing countries to escape aid or single resource dependency, and to reinforce government legitimacy and effectiveness, promote growth and reduce inequality. This initiative is significant because it is African led, by a group with capacity to act, with the prospect of political backing, and with potential benefits for politicians, bureaucrats, citizen taxpayers and users of public services.
- In the short term donors could get better at searching for politically feasible reforms that target critical constraints. For example, DFID and the World Bank are both looking at ways of bringing together Dani Rodrik's work on growth diagnostics with the output of political analysis. Donors could also do more in the short term to build targeted information and communication strategies around all their project and programme interventions, to enhance the prospects for constructive mobilisation of stakeholders. And they should take much less compartmentalised approaches to economic, social and political development.
- In the longer term, donors should invest much more heavily in strategies to support the generation and dissemination of good quality, accessible local data and related policy analysis. They should replace their aspirations for policy "dialogue " (which is often based on a donor agenda) with support for broader public debate with academics, journalists, professional groups, business, religious organisations as well as the usual suspects in civil society and government.

Conclusion

All these actions are feasible, and cumulatively they could make the difference between energising the search for new aid relationships and leaving Western donors increasingly marginalised. A lot of the groundwork has been done, and evidence of the need for a new approach is mounting. But this would require fundamental changes in donor thinking and culture, which is unlikely to happen without strong, visionary political leadership. That could make all the difference.

¹⁰ "Governance, Taxation and Accountability: Issues and Practices, OECD 2008

¹¹ International Conference on Taxation, State Building and Capacity Development in Africa, Pretoria Communique, 29 August 2008

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