Politics matters: Political economy and aid effectiveness

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1. Introduction

NORAD's 2008 Evaluation opens by declaring that *'We do not take sufficient account of political power structures in development cooperation.'*

But what does this mean in practice? How can we ground our development assistance in the political realities of the countries in which we work? How might a political economy approach improve our effectiveness as development partners? And can we make our aid more politically astute without making it politicised?

This talk seeks to address these questions. But alas, not to resolve them!

2. Why politics matters for aid effectiveness

To start with, it is crucial to emphasise that **development** (*and* poverty reduction) are **fundamentally political, not technocratic processes**.

Development *changes* the ways in which wealth and resources are produced, used and distributed. In doing so, development *transforms* existing social and power relations; it creates winners and losers. Pro-poor development challenges vested interests and interest groups. Countries seldom urbanise and industrialise without political conflict and ideological struggles. And as countries 'develop' new classes are formed, new expectations are created and new political settlements are wrought.

Given this political context, **effective aid is politically savvy aid**. Our development programmes, projects and policies will deliver *more development*, help *more people escape poverty* and help *more people realise their rights if* we embed our engagement in the political economies of the countries in which we work.

NORAD's 2008 Evaluation makes this point clearly.

- The evaluation of Norway's assistance to Zambia shows that: 'Norway and other donors have been largely blind to the political consequences of development cooperation' and this has limited the impact of our engagement.
- NORAD's review of anti-corruption projects highlights that 'much aid in this area is provided without taking the political situation into account.'
- The joint evaluation of Support to Citizen's Voice and Accountability demonstrates 'how difficult it is to influence power structures in a county.' And
- Evaluations in the fisheries and natural resources sectors have echoed the same point….

….that POLITICS MATTERS.

To further illustrate why politics matters, let's briefly explore two case studies of how failure to take political context into account can limit the effectiveness of development assistance: one from the forestry sector in Ghana and one from the power sector in Zambia.[1]

[1] The Zambia case study is drawn from recent applied growth and governance work by the World Bank (Fritz 2008). The Ghana case study is drawn from *theIDLgroup*'s ongoing engagement in Ghana's forestry sector.

2.1 Political and electric power in Zambia

In Zambia access to electricity is a binding constraint on growth and poverty reduction.

ZESCO, the state owned monopoly, is unable to meet rising demand for electricity in urban areas, in farming and in the mining sector. This constrains growth. It also limits poverty reduction. ZESCO's grid fails to reach much of the country—cutting off many of the poorest Zambians from electricity and preventing more regionally balanced development.

Fundamentally ZESCO doesn't produce enough electricity. ZESCO lacks the funds to invest in the construction of new hydro projects or even to maintain its existing infrastructure adequately.

The underlying reason for this is that prices for electricity in Zambia are among the lowest in the world (at 3c US per kilowatt hour). This means that ZESCO is not operating on a cost recovery basis and therefore it lacks the income to build more capacity or even to maintain its existing capacity.

So a lack of income leads to lack of investment which leads to a stagnant and declining electricity network just as demand is rising. This in turn leads to slower growth and less poverty reduction.

Since the 1990s, donors have invested their money, their political capital and their influence in pushing for a technically sound, 'standard package' of reforms for the sector. They have sought to 'influence' the government to privatise and unbundle ZESCO. This would entail both: higher tariffs to individual and corporate consumers, and opening up the sector to competition.

But, despite the potential benefits to growth and poverty reduction and initial government agreement to carry out these reforms, there has been little movement for over a decade. And several years ago, the government pulled the plug on any discussions about outside investment in the sector. Why?

The reasons are fundamentally political:

1. First, unbundling and privatizing ZESCO **goes against the interests of political elites**. Major infrastructure companies are thought to provide important discretionary resources to election campaigns. Procurement contracts are highly lucrative and 'useful' in terms of dispensing patronage and, possibly, for collecting kick-backs.
2. Second, ZESCO jobs are well-paid by Zambian standards and can be an important **tool for political and personal patronage**.
3. Third, increasing tariffs would be very **unpopular among urban voters**. The current government is already unpopular in Zambia's cities and is unlikely to want to further undermine its support.
4. Fourth, **economic nationalism** has been on the rise in Zambia, fuelled by the unpopular privatisation of the mines and populist politicians. This makes outright outside ownership of strategic sectors like electricity deeply unpopular.

So electricity remains a bottleneck to development in Zambia. And the World Bank and other donors have been left tilting at windmills. Without an adequate understanding of the political incentives facing decision makers in government, they have been investing in reforms which appear to be getting nowhere.

2.2 The political economy of forestry in Ghana

The forest sector in Ghana provides another case study of why paying attention to politics matters for aid effectiveness:

In the early to mid 2000s:

- Ghana's forests were being unsustainably cut down;
- Ghana's hardwoods were being sold too cheaply;
- The forestry sector—Ghana's third most important industry—was not contributing significantly to economic growth and poverty reduction;
- Community rights and benefits were consistently trumped by corporate rights and logging interests; and
- Forests generated little in the way of tax revenue, as 'timber lords' were able to evade taxation.

For donors, sector reform had been seen as a technical and forestry-specific challenge. And for nearly a decade, they offered technical and forestry-specific solutions. They provided training and technical assistance to the Forestry Department (later Commission). They financed organisational reform and capacity development. And they provided support to develop forestry management plans and forest inventories.

But these donor initiatives did little to stem deforestation, contribute to sustainable forest management, increase revenue, or protect community rights over forest products. Why?

Fundamentally the **root of the mismanagement of Ghana's forests was cross-cutting and political, not technical and sectoral**.

- Over the decades, forestry policy and implementation had come to **favour commercial logging interests**. This bias has deep historical roots as the Gold Coast was originally created as a colony to protect British corporate interests in timber and gold.
- The logging industry had **strong connections** and **protection** at all levels of the state from the local level all the way to the top levels of government.
- The timber industry was able to **finance politicians** and capture trade unions. They were able to help deliver votes or threaten mass protests on the streets of Kumasi whenever they wanted to prove a point.
- Government regulators **colluded** with Ghanaian timber operators to keep the price of timber low. This allowed them to do a minimum of processing and still make big profits. They also colluded to avoid paying taxes.

Overall then, the forestry sector suffered from systematic governance challenges. In this context donor-supported technocratic solutions did very little to address the underlying logic for why trees were being cut and poor people were being marginalised.

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So as these cases illustrate, without paying sufficient attention to political economy, our development assistance is likely to be less effective than it should be. If we take an a-historical and a-political perspective, we will fail to deliver. If aid is not politically aware, it is more likely to co-opted and less likely to reach its intended beneficiaries.

3. What Political economy analysis has delivered

So what can be done to improve our understanding of the political economy of development and aid? In recent years, a number of donors have begun to integrate a political economy approach into their strategic planning, programme design and evaluation processes.

This approach has been spear-headed by a range of political economy studies. SIDA, DFID, the Netherlands Ministry of Foreign Affairs, NORAD, AusAID and the World Bank have all commissioned political economy analyses. From Afghanistan to Zambia, donors have conducted studies to help them better understand the contexts in which they work.

At a broad level, these political economy analyses are:

> *'Concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time'* -OECD DAC

These analyses are not the same as conventional 'good governance assessments' which look at ***how*** a country is doing—whether it has transparent finances, respects human rights or the rule of law, and whether it provides access to justice. Instead these political economy analyses focus on the ***why*** questions. They explore:

- What structural features, institutions and actors **drive or constrain pro-poor** change;
- What goes on behind the **façade** of the state—why and how informal institutions and processes shape so much of how things work in developing countries.
- The reasons why **apparently promising policies and reforms** often fail to deliver.
- What are the **underlying interests and incentives** facing different groups in society:
    - *Why* it is that elected leaders, administrators and service providers behave the way they do?
    - Or *why* voters regularly behave in ways that do not advance their collective interests?

These political economy analyses began with macro-level country studies (e.g. DFID's Drivers of Change work, SIDA's Power Analyses, and The Netherlands Strategic Governance and Corruption Analyses). These studies give us a broad understanding of the political economy of countries and provide recommendations for how donors can improve their overall engagement and country strategies.

More recently, the political economy approach is also being applied:

- To **sectors or cross-cutting issues**: to help donors and other outside actors identify more specific barriers and opportunities in say the health sector in Nigeria or the water sector in Bangladesh.
- A political economy lens is also being applied to help donors understand and resolve specific policy options or operational problems. Such **problem-driven analyses** have for instance explored the political economy of specific growth policies in Zambia, Uganda and Nepal.

3.1 What has political economy analysis delivered?

Conducting these sorts of studies is obviously fascinating and rewording work for researchers and consultants like me—even if they entail many late nights sweating in front of my computer screen trying to make sense of Papua New Guinea or Nigeria in 30 pages or less.

But clear analysis does not necessarily result in clear recommendations. What matters from a donor perspective is how these sorts of analysis can **be operationalised**. How can they help us to do things differently come Monday morning?

To answer this question, it is instructive to look at some of the ways in which political economy analysis has recently informed donor strategies and programming. How it has helped to deliver more effective aid.

1. First, a political economy approach has **helped us to develop more effective** and **politically astute projects** and programmes.
    - For instance, in Ethiopia donors were largely blindsided by the 2005 elections and the Government's heavy handed response. As Ethiopia shifted from being a donor darling to being a problematic partner, political economy analysis helped donors reconfigure budget support in a way that by-passes the central government, focuses on delivering basic services, and seeks to strengthen social accountability. Also in Ethiopia, a politically informed analysis of the Productive Safety Net Programme helped to bolster the transparency and fairness of targeting processes for nine million of Ethiopia's poorest people.
2. Second, a political economy approach has helped donors to develop more **realistic strategies and programmes**. It has helped to temper our expectations of what it is that we can influence and what it is that we cannot. In Kenya, for instance, this realisation has led DFID to be more realistic about what it is that their engagement in public sector reform can deliver and has lead to a narrower, but more realistic focus on public financial management.
3. Third, applying a political economy lens has helped donors to identify more **politically feasible approaches to reform** than would otherwise be the case. Political economy analysis can help donors look beyond those options which may be technically best, but which are politically infeasible. And to identify policy options which may be technically second or even third best, but which are politically viable. For instance, in the Zambian power sector

(explored earlier), the World Bank and other donors are currently revisiting their approach and exploring how to work with ZESCO. Rather than push for privatisation, they are exploring more politically palatable public-private partnerships and considering incremental financing for the development of new capacity.

4. Fourth, as the Zambia case shows, a key message of much political economy analysis is that we should seek to *work with* rather than *against* the grain of a country's political economy. However, a political economy approach can also help us to **identify new more strategic and coordinated ways** in which we can address seemingly intractable development challenges. By understanding the underlying incentives that hamper pro-poor change, we can (in some cases) begin to 'use aid and other relationships to help shift the incentives facing political elites' (Unsworth 2008). A political economy approach can help us to focus not just on identifying and working with *individual champions of change*, but to identify and support the development of broader and more sustainable ***coalitions for change***.

   This approach can be illustrated through recent efforts to address illegal logging and **forest governance in Ghana** (described above). Political economy analyses conducted 5 years ago, , highlighted the forest governance challenges described earlier. At the same time, economic and fiscal analyses revealed the real costs of forest degradation and illegality on the economy and on tax revenues.

   Since then, donors, international NGOs, private sector companies and change advocates within government have combined to develop a multi-faceted approach to changing Ghana's forestry sector. These actors are working on the *supply side*, the *demand side* and the *inside* in an effort to change the rules of the game governing Ghana's forests.

   - Through a natural resources sector Budget Support Programme, five donors have helped to finance continued reform and capacity development within the Forestry Commission and the sector Ministries.
   - Through support to the parliamentary subcommittees dealing with revenue and forestry, MPs have begun to play a more active and informed oversight role in the forestry sector.
   - Through support to civil society actors involved in forestry and community rights, there is greater awareness of rights over land and resources and lost revenue. There is also increased demand for equitable treatment and greater accountability of government and logging interests.
   - International NGOs, EU governments and now private sector timber importers have placed pressure on the Ghanaian government and its private sector exporters to ensure that wood is legally and sustainably sourced. This has culminated in the EU's Forestry Law Enforcement Governance and Trade (FLEG-T) process, itself supported by political initiatives within the European Parliament. Ghana was the first country to sign a FLEG-T Voluntary Partnership Agreement with the EU in September 2008. This commits both EC countries and the Government of Ghana to halt the trade in illegal timber.

- These pressures for change may be further reinforced by REDD (Reduced Emissions from Deforestation and Degradation) and similar schemes which offer payment for ecosystem services through carbon trading. Investment in such schemes will demand effective governance and clear tenure rights - for land, trees and carbon.

This is not to say that the incentives and patronage structures around illegal logging, deforestation and corruption have been transformed in Ghana. They remain deeply rooted. But they are shifting, and the Ghana example shows that by being politically astute, innovative and coordinated, donors and other international actors can begin to make a difference to even protracted governance problems.

4. Conclusions

Now none of this amounts to a step change in aid effectiveness. Applying a political economy approach to development is not a silver bullet. But the political economy approach does mark an improvement over the largely technocratic approaches of the past several decades. Compared to 5 or even 2 years ago, most donors are more aware of the political economy dimensions of their engagement and are asking more politically astute questions as they plan, programme and seek to influence.

Putting political economy at the heart of our engagement, however, requires that we do more than understand the contexts in which we work. It requires that we re-examine some of our key assumptions about **how countries develop** and **how political change occurs**. It also requires that we both recognise our own role as political actors and recognise just how limited our role may be in bringing change.

But are we, as external actors willing and able to take a deeper look at our own incentive structures, habits and ways of working?

Comfort zones

Despite what we now know about the political economy of change and the need for context specific and innovative approaches to development, donors still tend to slip back into technocratic comfort zones. We still tend to bring a supply driven approach to our engagement. We hope that by tweaking existing programmes and projects we will deliver better results. In this context, political economy analysis can end up being seen as a useful add-on, rather than something that is fundamental to how we engage.

As a result, technocratic interventions and capacity building of the formal institutions of the state remain at the heart of our approaches to good governance. We may have a better grip on the political realities in which we engage, but still end up thinking that by training parliamentarians and technocrats we will get at the roots of maladministration and weak governance. A political economy perspective shows, however, that these supply-side approaches are unlikely (in and of themselves) to deliver the institutional changes and effective checks and balances they anticipate.

Demand cannot always deliver supply when it comes to governance

Donors often finance the demand side of governance by supporting civil society organisations. The assumption behind this is that a stronger civil society will automatically translate into improved domestic oversight and deeper democracy. This is too optimistic.

Although civil society can and does contribute to improving the accountability of politicians and service providers, it can only do so much, even in the best of circumstances—as the study on Citizens' Voice and Accountability mentioned earlier highlights. We need to be less naïve about what civil society can accomplish in difficult contexts. We also need to be clearer about what it is that often motivates civil society and who it represents.

The aid effectiveness agenda may not always equal more effective aid

Norway, like most donors, is committed to scaling-up development assistance, increasing financial flows and working through coordinated aid modalities. These commitments—as encapsulated in the Paris Declaration and Accra Agenda for Action—are undeniably a step forward. But, if we are not careful, these commitments can create their own incentives which may limit our ability to act in a politically informed way.

- The Paris Declaration and Accra Agenda focus on building formal institutions and effective aid partnerships. While country ownership and country-led approaches are central to both, the focus of the aid effectiveness agenda can **reinforce a technocratic agenda rather than a political economy one**.
- As we push to increase aid flows and aid impact, the primary **incentives facing development administrators are to spend and to deliver.** Our 'higher ups' evaluate our performance not on the basis of our knowledge of the intricacies of customary land tenure or how patronage systems can capture specific reform processes. Rather we tend to be evaluated by our ability to disburse money and preside over programmes that are seen to deliver measurable results. This is hardly a recipe for innovation and politically astute development.
- Harmonisation and budget support **can distort as well as enhance domestic accountability**. It is assumed that General Budget Support will bolster state capacity and government's accountability to citizens, by channelling resources into government coffers. But as last year's review of Norwegian aid to Zambia found: harmonisation may be 'leading to a concentration on the two big players, government and donors, at the expense of CSOs and NGOs. The place for third parties at the development cooperation table is becoming smaller, and more contested' (NORAD 2007).

Modesty matters

We need to revise our roles and expectations. A political economy perspective shows how change occurs, and how slow, incremental and internally driven it often is. In this context modesty matters: understanding politics and grappling with how and why it is that change occurs in particular contexts shows us just how little influence we as outside actors may have.

What we can do, however, is operate in a more coordinated and systematic way to identify and work with key drivers of change at all levels. We can also attempt to surround governance challenges, as the Ghana forestry case study illustrates. Often it may be the *less flashy* interventions that may have the greatest impact, for example public financial management reforms and FLEG-T.

Our role as external actors in development is far more limited than we often assume is the case. Changing the rules of the game is much more difficult than it appears; we often work for years to help to rewrite the rules, only to find that an entirely different game has been played all along.

Overall then, the political economy approach has the potential to help us make fewer costly mistakes, to ensure that our approaches are better grounded in the realities of the countries in which we work and to do more to ensure that our investments reach the people that they are intended to reach— the poorest and most marginalised.

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