

Policy Practice Brief 1

Tackling the Political Barriers to Development: The New Political Economy Perspective

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This is the first in a series of briefing papers prepared by *The Policy Practice* intended to share our ideas on the development process, and its political and social context. We begin the series by setting out the core of our broad approach, which we refer to as the *New Political Economy Perspective* (NPEP). We argue that the analysis of the links between political and economic processes rooted in their social, cultural, ethnic and historical context is essential to an understanding of how development takes place. Some development agencies have begun to introduce elements of this approach in their analyses, a notable example being DFID's Drivers of Change Studies. In this paper we review the lessons learned from these studies, their strengths and weaknesses and priorities for further research. We conclude that important progress has been made, but there is a need to improve, extend and deepen the analysis, and for development agencies to recognise more fully the implications of the approach for how they think about development and engage with their recipient country partners. This brief examines how the New Political Economy Perspective can inform analysis and thinking on development. The second companion brief discusses how to make the approach more operationally relevant.¹

The Political and Social Barriers to Development

One of the main weaknesses of recent development discourse has been its detachment from political and social realities. Development agencies have offered numerous prescriptions for policy reform, institution building and better governance, but have not given sufficient consideration to understanding *how* such change will come about in different contexts. Consequently, their recommendations have often not been followed because they threaten the interests of governing elites and other powerful interest groups. This central problem in aid relationships has long been recognised by at least some aid agency staff, but has been described in somewhat opaque language, and has not been tackled head on. Donors often explain failures in implementation in terms of the weakness of *national ownership* or absence of *political will*, but there has been limited understanding of these obstacles and how they might be addressed. In searching for such understanding, some development

agencies have begun to introduce more systematic political analysis under a diverse set of labels, such as DFID's *Drivers of Change*, SIDA's *Power Analysis* and the World Bank's *Institutional and Governance Reviews*.² Their aim is to analyse in greater depth how political systems function in developing countries and the implications for assistance strategies and aid delivery. The wider development literature also points to a resurgence of interest in the social and political dimensions of development.³ In addition, some forms of conflict analysis, such as DFID's Strategic Conflict Assessments, have also drawn heavily on political economy ideas.

As a result of these initiatives, new insights have been gained. The World Bank is strengthening its engagement in governance issues, and the relationship between corruption, poverty and underdevelopment, subjects that provoked heated discussion at the 2006 World Bank and IMF Annual Meetings. Within DFID the Drivers of Change (DoC) studies have begun to influence aid

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policy at the highest levels. For example, DFID's latest White Paper on *Making Governance Work for the Poor* gives centre stage to the connection between poverty reduction, good governance and political processes:

"First and foremost, the fight against poverty cannot be won without good governance. We need to help governments and citizens make politics work for the poor" (p.10),

and later....

"This is about politics. Politics determines how resources are used and policies are made. And politics determines who benefits. In short, good governance is about good politics" (p.23).

These statements bring a welcome focus on the politics of developing countries. However, in this paper we argue that analysis needs to be taken further, and more fully applied to the design and implementation of development cooperation strategies. What is proposed may be termed the *New Political Economy Perspective*.

The New Political Economy Perspective

Political economy, the study of the interrelationships between political and economic institutions and processes, has a long academic tradition. In referring to the New Political Economy Perspective (NPEP) we are advocating a more multi-disciplinary approach to this field of enquiry that seeks to combine the insights of political economy with the 'new institutional economics' and the study of social processes, cultural norms and ethnicity. The essence of the approach can be summarised in two central propositions, which are stated and commented on below:

- 1) In order to understand how policies favourable to development can be put in place it is essential to analyse the incentives that influence the decisions of governing elites, other powerful interest groups and change agents in civil society, the private sector and the government bureaucracy.

The nature of incentives and interests, both formal and informal, provides a large part of the explanation of why many governments pursue policies that are damaging to development. The NPEP can help to identify conditions that make it more likely that governments will

adopt policies and programmes in favour of broad-based economic growth and poverty reduction rather than continue to pursue policies that continue to benefit predominantly the narrow interests of the governing elite and their supporters.

- 2) These incentives result from the pursuit of economic interests and the restraints of formal institutions. They are also heavily dependent on the informal social rules that govern behaviour, define the social hierarchy, create and perpetuate embedded power structures and generate reciprocal social obligations, often shaped and perpetuated by historical, cultural and ethnic influences.

The most striking feature of the NPEP is that it combines a strong sociological component with political analysis, taking account of embedded beliefs, cultural norms and ethnicity that change only gradually, and yet have a profound influence on the way agents act and react. The approach draws attention to factors such as political patronage, clientelism and kinship that shape political processes, where formal institutions are weakly embedded and easily captured. The focus on non-economic factors and informal institutions, including the dominant societal and cultural values, and the pursuit of social status and power, sets the NPEP apart from mainstream economics and much political economy.

DFID's Drivers of Change (DoC) approach is an important illustration of the application of the New Political Economy Perspective.

Insights Derived from the New Political Economy Perspective

The central problem identified by the NPEP is that many vital reforms are in practice resisted by vested interests benefiting from the perpetuation of the status quo. This occurs most acutely where political power is concentrated in the hands of a few individuals and small interest groups, and where policy is determined through narrow, personalistic relations of patronage, often with strong ethnic ties. The successful implementation of reforms will depend on success in changing the nature of the incentives and the relative power and ability of different interest groups to influence the key decision-makers.

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Drivers of Change

The key question addressed by DoC studies is how policy and institutional reforms that benefit poor people come about and endure, or why in many cases they are blocked. DoC studies have made clear the difficult, incremental and long-term nature of bringing about improvements in the policy process. The aim of the studies is to identify what factors (the drivers of change) will create incentives for change over the short, medium and long-term.

The approach considers the relationships between three sets of factors, which vary over different timescales:

- *Agents*, defined as the individuals and organisations pursuing particular interests.
- *Institutions*, defined as the formal and informal rules and relationships, including cultural norms, creating a set of incentives that affect the behaviour of agents.
- *Structures*, defined as the contextual factors influencing the environment for institutions. Generally, these are not readily influenced, either because of the time scale needed, or because they are determined outside the country. Examples include natural resource endowment, demographic shifts, climate change and technological progress.

Over the past few years DFID has undertaken an intensive DoC work programme encompassing:

- Broad ranging country level studies that have been completed in at least 20 countries.⁴
- Several more detailed studies that have been undertaken, focussing on particular sectors (e.g. Kenya agriculture), policy issues (e.g. trade in Nigeria), institutional processes (e.g. budget processes in Malawi), cross-cutting areas of government responsibility (e.g. economic management in Nigeria) and aid instruments (e.g. budget support).
- A number of cross country syntheses and reviews.

Most of the first round studies are now complete and, following a series of reviews, DFID is considering options to take the process forward. This brief presents some ideas on priorities for future enquiry.

Studies adopting the New Political Economy Perspective identify numerous factors that may lead to change in different country contexts:

- **Embedded systems.** Social behaviour is conditioned from early childhood around deeply embedded norms and conventions which in turn determine the way politics are conducted. These informal rules are generally far stronger than a country's formal institutions, constrain reforms, and change only gradually. They may be worked around, but can neither be frontally assaulted nor ignored.
- **Leadership.** A change of political leadership can often have decisive impact on policy direction where new leaders are not so beholden to entrenched patronage networks and are in a position to challenge vested interests. However, the reform momentum is often short lived, unless the rules of the political game change, as new leaders seek to reward those who put them in power and to shore up their support bases.
- **Growth.** Economic growth may lead to a virtuous circle where the incentives become progressively stronger (linked for instance to the growth of a middle class) to deliver policies that favour governance reform.
- **Shocks.** Adverse events, such as a natural disaster or macroeconomic shock, often have an important but unpredictable effect, sometimes throwing reforms off track, but in other cases galvanising support for reforms or lending impetus to peace building efforts.
- **Violent conflict** almost always has a negative effect on development prospects by creating a justification for dictatorial leadership, undermining the rule of law, favouring secrecy over transparency, and forcing compromises for power and revenue-sharing that result in a highly inefficient resource allocation.
- **Structural change.** Wider processes of social and environmental change, such as migration, class formation, urbanisation or the settlement of pastoralists, can also have an important impact on political dynamics

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over the medium term, for instance by changing the relationship between ethnicity, location and voting patterns.

- **Development agencies.** Most analysts agree that the impact of development agencies on domestic policy processes in most aid recipient countries is modest at best. Conditionality attached to official aid has often been ineffective because the reforms donors promote run counter to the interests of those in power. Donors are themselves subject to perverse incentives that reflect the politics of aid and undermine the formal development goals. These reflect internal organisational problems, weak coordination, disbursement pressures, and foreign policy priorities. In some cases donor support has proven to be counterproductive because aid has provided resources that enable necessary reforms to be delayed. However, as discussed in our

second Policy Brief, there are many opportunities for donors to play a modest, but constructive role in supporting changes in domestic policies and processes that are more favourable to pro-poor development.

- **Strengthening domestic demand for reform.** Many studies have concluded that the key to bringing about lasting reform is to expose decision makers to the incentives and restraints that arise from being held accountable to a wider public. This points to the importance of formal institutions of accountability, including the legislature and judiciary, as well as the crucial role of civil society in pressing for change. Strengthening the information, monitoring and advocacy role of civil society holds the greatest opportunities for external agencies to promote improved policy making in the countries they support. The issues are discussed further in the box below:

The role of civil society in demanding better governance

It is now widely accepted that governance reform to be sustainable must be driven in large part by domestic political forces. Consequently reformers must seek to build effective domestic coalitions in favour of reform. 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) will have a central role. It is through these organisations working together and reinforcing each other that public opinion is formed and political pressure may be exerted to overcome entrenched interests.

Civil society groups and citizen pressure are also vital to ensure that policy reforms are properly implemented. Otherwise the gains risk being cancelled out by entrenched interests who may succeed in preventing reforms from being carried out or by capturing enforcement agencies. A strong civil society is vital to monitor implementation, campaign for transparency and accountability, and expose malpractice. Among the many priorities, campaigning for judicial reform is critical, since without the rule of law and effective sanctions for malpractice, reforms can easily be undermined. Enhancing the power and reach of the independent media is also crucial.

Examples.⁵ A good recent example of an advocacy civil society organisation (CSO) and independent media working together for governance reform is that of Etica in Nicaragua. Etica sponsored a TV and radio campaign over a three month period building pressure on the National Assembly to vote to reduce the grossly excessive salaries and pensions of top officials. At the end of the campaign new legislation was passed and, even though this was challenged in the constitution court, the measure had the support of all the main presidential candidates in the recent elections.

CSOs can play key roles in monitoring the performance of government agencies. For example, G-Watch in the Philippines surveyed school text book production and distribution, and discovered that 30 percent of the books failed to reach the schools. They then set up a coalition of CSOs, using the boy and girl scout movement, to check on the quality of book production and track distribution, thereby reducing the ‘leakage’ to under 5 percent.

Freedom of information is an important way to enhance transparency. However, government officials often fail to apply the relevant laws. In Argentina, a CSO called CIPPEC has recently undertaken a study of the obstacles encountered by citizens seeking public documents. This led them to draft guidelines which the Office of the President agreed to issue. CIPPEC then assisted in training officials in their application.

Experience in Applying the New Political Economy Perspective

The Drivers of Change studies that have been undertaken so far represent an important departure from the traditional donor-funded studies and a pioneering step in introducing the New Political Economy Perspective. They provide a rich body of information and analysis, and have had an important impact in bringing about a gradual shift in donor thinking and practice towards NPEP principles and greater realism on the feasibility of reform.

However, recent reviews of DFID's DoC studies have highlighted a number of weaknesses with the first round of studies.⁶ A key criticism of many studies is that their conclusions are rather general, and are often too broad to prioritise specific actions. Most studies highlight the general nature and causes of governance failures in broad terms (patronage, corruption and elite capture are almost universally emphasised), but few offer an in-depth analysis of how incentives and political processes operate in practice.⁷ Unless these incentives are well understood, it is hard to identify a suitable target for intervention and to chart an assistance strategy that would have some chance of supporting reforms that encourage more broadly-based social and economic development, notably that which accelerates poverty reducing growth.

Drivers of Change studies almost universally emphasise the importance of strengthening demand for reform through citizen pressure and civil society oversight. However, in some cases these processes are conceived in simplistic terms. There is a need for additional and more incisive research and analysis of civil society, its composition, interests and influence, in order to design more effective strategies for strengthening its advocacy role.

The role of donors as change agents is considered in some, but not in all, of the Drivers of Change studies. In particular, as is discussed in the second Policy Practice Brief, few studies make specific recommendations on how to deliver aid more effectively. Finally, a potential benefit of undertaking studies using the New Political Economy Perspective is that the process of enquiry, consultation and dissemination can help to stimulate public discussion and civil society engagement, which is essential for bringing about change. However, for reasons of political sensitivity, some of the studies have not been widely disseminated and this has lessened their impact. A key challenge is to find ways to conduct such studies in a manner that is non-confrontational, but avoids being secretive.

A more general observation is that there are significant variations in quality, coverage and focus of existing Drivers of Change studies. This points to the need to refine the conceptual approach and methodology, and to apply this more consistently.

Priorities for the future

The following points set out the next steps in applying the New Political Economy Perspective. Taken together these recommendations point to a broad and potentially productive agenda. Furthering this agenda will not be easy, and will require coordinated, consistent and sustained engagement. Yet, the benefits - in terms of improved understanding of the development processes, more sharply-focused development programmes, and more effective poverty-reduction - will be well worth the cost.

- Second round country level studies using a more refined and consistently applied conceptual framework. There is a need to understand more fully how political systems influence development outcomes, and to delineate their informal institutional, social, ethnic and cultural context. In particular, there is a need to develop a systematic approach to the analysis of incentives, what creates and modifies them, and the effect they have on patterns of behaviour of influential agencies and groups. It is recognised that elucidating these hidden processes and informal institutions is a difficult research challenge, and the usefulness of the results will depend on the choice of methodology, the selection of researchers, their experience and country knowledge.
- Careful mapping and assessment of civil society organisations as broadly defined. In order to identify priorities for support, it will be important to gain a clear picture of the composition, organisation, management, capabilities, accountability and representativeness, and internal governance of individual entities. In addition, it is important to understand the links between civil society organisations, the potential for coalition building, their influence on government and policy, and the schisms and internal contradictions that often fracture different parts of civil society.
- Recognising that local leadership is critical, research is required to identify who are the individuals and organisations with the potential to play a strong leadership role, to examine what influences them, and to explore how they may be effectively and legitimately supported.⁸

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- More focused political economy studies looking at a particular issue or sector linked to programme priorities. A few of these have been undertaken by DFID (e.g. Kenya agriculture, Nigeria trade). Further studies would be invaluable to inform the design of specific projects and programmes.
- In order to understand better what drives change it will be important to focus research on particularly active periods of reforms, and to consider how these reforms can be sustained and extended and the lessons applied elsewhere.⁹ Equally, it is often useful to study instances of reforms going off-track in order to formulate an effective response.
- More systematic, regular and incisive monitoring, reporting and analysis of political processes is required in order to capture changes over time, assess emerging risks and opportunities, and to understand the implications for aid programming.
- Systematic and persistent efforts for donors and aid recipient governments to share the diagnostic studies of governance issues using the NPEP framework and then to define agreed measures, supported by appropriate incentives, to address the weaknesses that are identified. This last point is elaborated in our second Policy Practice Brief.

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- 1 Making the New Political Economy Perspective more operationally relevant for development agencies, Gareth Williams, Alex Duncan and Pierre Landell-Mills, Policy Practice Brief Number 2, January 2006 www.thepolicypractice.com
 - 2 Lessons learned on the use of Power and Drivers of Change Analyses in development co-operation; Review commissioned by OECD DAC Network on Governance, Final Report 20 (September 2005) see GOVNET <http://www.gsdc.org/docs/open/DOC82.pdf>
 - 3 Lockwood, M. (2005) *The State They're In. An Agenda for International Action on Poverty in Africa*, ITDG Publishing.
 - 4 For access to many of the country studies see <http://www.gsdc.org/go/topic-guides/drivers-of-change>
 - 5 All three cases cited were supported by Partnership for Transparency Fund, an international CSO dedicated to assisting national CSOs to fight corruption (see www.partnershipfortransparency.info)
 - 6 'Review of the uptake of the Drivers of Change approach', Nigel Thornton and Marcus Cox, Agulhas Ltd. Report for DFID, 2005.
 - 7 One of several exceptions is the Malawi Drivers of Change study, which includes a detailed discussion of how patronage operates in practice, and is rooted in features of Malawian society. See 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
 - 8 This suggestion is extensively explored in Lockwood, M. (2005) *op cit*.
 - 9 The Policy Practice has recently completed a study in Nigeria which considers these questions. A summary version will shortly be published as a Policy Brief on The Policy Practice website www.thepolicypractice.com

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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