Explaining Aid (In)Effectiveness
The Political Economy of Aid Relationships

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There is … growing insecurity in the donor community with every best seller lamenting the way aid fosters corruption, inflation, dependency, and lucrative tax-free employment with perks…. Greater transparency exposes problems and unmet expectations in such a way that contributes to a crisis of legitimacy for the foreign aid sector, even amongst some of its most ardent supporters. Perceptions of failure threaten donor survival, resulting in a desire to engage in visible reforms that can shore up credibility. (Gulrajani, 2015)

ABSTRACT

International aid plays an ambivalent and contested role in stabilising the global system. It creates asymmetrical relationships between donors and recipients that succeed when their interests can be harmonised but not when they conflict. Donors use their support to persuade sovereign governments to adopt policies they support but cannot always negotiate acceptable settlements with them, producing non-compliance and failed programmes. These relationships and strategies have changed radically since the war in response to changes in the global system, policy paradigms, and crises. We review these processes, treating aid relationships as a structural component of the global system; review the different strategies adopted by donors since the war that culminated in the recent Paris Declaration and Sustainable Development Goals calling for poverty reduction and good governance. We identify the political challenges that donors confront in addressing these issues, and examine the strengths and weaknesses of their attempts to use of Political Economy Analysis and New Public Management to address them.

Key Words: Aid effectiveness; Aid Relationships; pro-poor policies; political economy analysis; Paris Declaration; fragile states; democratisation, Sustainable Development Goals, New Public Management

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1 Aid Relationships, Global Governance and International Crisis

The aid industry addresses the threats generated by international inequality and exclusion, economic, political and humanitarian crises, mass migration and environmental degradation by making concessional transfers from rich to poor countries. These relationships and the transfers that sustain them involve bilateral negotiations between individual states, global agencies and private donors, but they also operate as an anarchical system (Bull, 1977) that depends on voluntary but binding agreements and reciprocal benefits that impose real, albeit unenforceable obligations on participants. It is an integral part of the institutions of global governance, and plays a similar role at the international level to the domestic welfare transfers that sustain national economic and social systems. It represents our first line of defence against the crises that now threaten us with a return to the ‘chaotic competition, monetary disorders, depressions, political disruptions and … new wars within as well as between nations’, (White, 1944/1969: 37) that followed the First World War, (Keynes, 1920/2005) and were only avoided by massive aid transfers after the Second. (Brett, 1983; 1985)

This system is coordinated by the IMF and World Bank, (the IFIs) the UN, the Development Assistance Committee (DAC) of the OECD, development ministries in donor countries; the international NGO community, and their counterparts in recipient countries. It has undergone radical changes in power relationships and policy agendas since metropolitan powers and evangelical movements introduced aid programmes into their colonies before the war. (Brett, 1973) It was transformed in the 1940s to deal with post-war, then post-colonial reconstruction; transformed again in the 1980s with the introduction of neo-liberal Structural Adjustment Programmes (SAPs) to deal with the global crisis; and again in the 21st century with the global agreements that culminated in the Paris Declaration on Aid Effectiveness in 2005, and the Sustainable Development Goals (SDGs) and Paris Climate Change Agreements in 2015.

Thus aid has made a critical but often ignored contribution to global governance throughout the modern period, and its practices, motivations and achievements are heavily contested. Its supporters claim that it is not just a charitable response to poverty, but increases the welfare of rich as well as poor countries by stabilising the open global order. Its critics claim that it is driven by selfish national interests and perverse incentives, and generates large-scale waste and poor performance. Both of these claims rest on credible evidence, raising complex issues that we will review in the rest of this paper. We will first describe its characteristics as a system, then review the competing explanations for its uneven results, its historical evolution, donor attempts to use Political Economy Analysis (PEA) to improve aid effectiveness; and conclude with a critical review of these attempts and suggestions for reform.

2 The Political Economy of Aid Relationships: Theoretical and Methodological Issues

Systemic Issues: Managing Conflicting Goals and Capacities

Aid relationships involve concessional transfers motivated by ethical obligation, mutuality and/or the need to sustain political and economic relationships. Transfers depend on conscious decisions on both sides, rather than commercial calculation and market competition. The existence of mutual interests, unrequited transfers and a common interest in successful outcomes allows the aid system to be treated as an organic whole rather than an arena dominated by the interplay of selfish, conflicting, and even contradictory interests. However, aid may involve compatible interests and coopera-

2 H.D. White was Assistant Secretary to the US Treasury and, with Keynes, the architect of the IMF and World Bank.
tion, but it also may not, especially in the weakest states dominated by elites and social groups with a vested interest in failed institutions and policies that donors expect them to change.

Hence using organic models to understand these processes encourages us to overlook the asymmetrical and sometimes adversarial relationships they involve, and the fact that access to aid always generates intense competition in aid-dependent countries where it makes a major contribution to budgets and civil society organisations. Donors play a key role in these processes because they can give or withhold support, but their control is always incomplete because non-compliant rulers and their supporters have sovereign rights and can therefore comply with acceptable and evade unacceptable demands. Donors are often willing to fund under-performing programmes in order to spend their budgets; they may disapprove of repressive regimes, but they cannot impose their decisions on them, and are obliged to avoid partisan political interventions that challenge their political authority or strengthen opposition parties and movements. However, their interventions always do have political and policy consequences since their decisions do play a key role in sustaining or undermining weak states and their rulers.

Thus the aid system does not operate as an organic whole, but involves asymmetrical power, contested sovereignties, and competing, often contradictory goals. Recognising these tensions challenges the optimistic assumptions used to legitimate the system but does not undermine the case for aid itself. Instead it provides us with a more realistic approach to the complex and contested processes involved in donor-recipient attempts to negotiate mutually beneficial agreements, and to the adequacy of the regulatory framework that govern them. It also raises difficult questions about the role and effectiveness of aid conditionalities, and of the current commitment to local leadership and policy ownership embedded in the Paris Agreement and SDGs that we will address below.

Using this approach enables us to understand why aid relationships produce such contrasting results, by showing that they do not depend on aid per se, but on the nature of the interests that motivate the behaviour of the governments and social movements on both sides. This insight is often overlooked because the survival of particular relationships depends on the willingness of both sides to treat them as apolitical exchanges between equals, motivated by ethical values and common interests. This view works well when interests coincide, but not when they diverge so recipients make promises they do not intend to keep and donors conceal failures from their own constituents. Then aid, ‘like all gift economies,’ operates on ‘the sincere fiction of a disinterested exchange’ that enables ‘relations of dependence that have an economic basis [to be] disguised under a veil of moral relations,’ producing ‘a shared misrecognition of how the exchange works.’ (Bourdieu, 1980/1992) These necessary deceptions explain the dominance of organic models in current aid agreements, but they also help conceal the perverse incentives and corrupt practices that have operated on both sides in different contexts, and explain the heavily contested nature of the aid system itself.

Aid has played a varied role during the modern period, responded to different interests, depended on different policy paradigms, and produced better results in strong as opposed to weak states. (Abuzeid, 2009) Donors have supported oppressive dictatorships or progressive democracies, and socialist or capitalist states, and used aid to support military spending or social services; some recipients have used it to reinforce their hold on power, others to strengthen democratic processes and finance pro-poor services and livelihoods. (Clapham, 1996; van der Walle, 2001; Brett, 1998) State-led or ‘structuralist’ economic programmes and authoritarian regimes were supported by capitalist or communist donors during the cold war, but aid was then used to drive through neo-liberal and democratic reforms in the 1980s and 1990s, and then to encourage poverty-focussed development and good governance. The complexity and fragmentation of the aid industry has also increased,
with the emergence of new public donors like China that are not part of the dominant western liberal system, and of well-endowed private donors like the Gates Foundation, and an increasing role for international and local NGOs and private firms.

These radical changes and contradictory outcomes are an unavoidable response to the atomised and weakly structured nature of the aid system, and to the international and domestic conflicts and crises that motivate all of the players and alter the terms on which they interact. Thus aid relationships do not just depend on the interests and capacities of each partner, but on the tensions involved in negotiating and implementing agreements between partners with distinct and sometimes contradictory interests. They are governed by weakly enforced rules and diverse goals and practices that produce contingent outcomes that depend on the bargaining power of each side. Donors try to promote programmes that comply with global agreements, their own resources and the interests of their own supporters, but their ability to do so depends on their compatibility with the interests of local governments and their ability or inability to resist unacceptable demands.

**Theorising Aid Relationships**

These complex processes and outcomes explain the heavily contested and nature of the aid debate and the contradictory judgements in an academic and policy literature that rarely focusses on the dynamic processes that govern the operation of the system as a totality.

Thus conservative critics claim that aid reinforces the power of reactionary regimes, and supports wasteful and monopolistic state-led programmes; (Moyo, 2009; Easterly 2006; Bauer 1972) radicals accuse donors of transferring inappropriate technologies and organisational systems, (Burch 1987) and imposing neo-liberal policies on weak states that have increased inequality and marginalised the poor, (Engberg-Pedersen, 1996; Ferguson, 1996; Bond and Manyaya 2002) while technical policy analysts attribute failures to inappropriate procedures and processes, and unrealistic models and expectations among donors. (Andrews, 2014; Levy, 2014) 50 years of African fieldwork and consultancy have taught me that donors do often favour their own rather than local interests, ignore local conditions, values and needs, and insist on inappropriate procedures and structures that make unreasonable demands on implementing agents and beneficiaries.

These claims cannot be discounted, but aid has also stabilised the global economy during economic and political crises, enabled poor societies to initiate developmental transitions, and saved millions of lives in humanitarian crises. It has helped to strengthen economic management and democratic processes and support pro-poor services and livelihoods, even in weak states, and produced dramatic results where partners share similar goals as they did during European and East Asian reconstruction under the Marshall Plan after the war. Donors negotiated progressive settlements with receptive regimes in Uganda under the National Resistance Movement in the 1980s and 1990s, (Barkan, 2005; Brett, 1998) and in Zimbabwe during the 1980s and early 1990s; but failed to do so in Uganda in the early 1980s, or in Zimbabwe when the regime adopted predatory policies in the late 1990s. (Bratton, 2013; Brett, 2008; 2005) The starkly contrasting outcomes of the post-war occupations of Japan and Germany in the 1940s, and Iraq in the 2000s clearly illustrate this point.

Thus credible explanations for success or failure depend on an ability to identify the political and economic tensions that govern interactions between donors and recipients at local, national and global levels as they attempt to reconcile their often contradictory goals and policy paradigms, especially in fragile and fragmented states. This requires a holistic and interdisciplinary approach that is rare among academic theorists with a strong disciplinary bias, or in donor driven research that focuses on technical explanations, post-project evaluations and context-specific local variables, ra-
ther than the political variables that motivate their own behaviour and their interactions with local counterparts. This has produced excellent research on the national variables that influence the behaviour of either donor or recipient governments, (Gulrajani, 2014; Brown, 2013; Copestake & Williams, 2013) but far less emphasis on the contradictory processes generated by the interactions between donors and recipients in different contexts and periods.

This calls for an interdisciplinary approach that avoids one-sided claims based on partial evidence, unrealistic assumptions and technical explanations. Structuralist and liberal as well as authoritarian and democratic regimes have succeeded or failed in different contexts in response to differing political, economic and social variables. These variables depend on the actual conditions that govern the interactions between external and domestic players, and can only be explained on a case by case basis. The critical role of political variables in aid effectiveness is now widely recognised. Donors attempted to deny the political significance of their role within recipient countries until recently, but have now brought these issues out into the open by producing an important body of interdisciplinary policy theory referred to as Political Economy Analysis (PEA) to address these issues that we will review in a later section after providing a typology of different types of state and a periodisation of modern aid relationships.

**Contextualising Aid Relationships: Dealing with Strong, Fragile and Fragmented States**

Aid relationships are inherently asymmetrical, but they involve far higher inequalities and tensions in the least developed countries (LDCs). These differences cannot be acknowledged in global agreements, but donors do make explicit and implicit judgements about the ability of different types of state to keep their promises and meet their obligations, by dividing them into strong, fragile, or failed states. These judgements depend on many variables – the goals, integrity and accountability of rulers and their bureaucracies; the openness, competitiveness and strength of their economies and firms; and the inclusiveness and diversity of their civic organisations. They produce significant changes in support and strategies, producing close relationships with favoured states and transferring support to NGOs or private firms in fragile or failed states.

The ability of weak states to evade formal conditionality in the 1990s, led donors to shift support to stronger states with ‘good policies’, (Collier & Dollar, 2002, 1476; Ritzan, & others, 2000) marginalising the poorest people in the poorest countries. Current aid agreements exclude formal conditionality, but donor judgements about the ability of any state to respond to their demands represents a powerful form of implicit conditionality and influence the scale and terms of their support. Thus aid negotiations are relatively collegial in successful states like Ghana and Uganda, but heavily contested in fragmented states like Nigeria, Pakistan and Nicaragua where regimes are not committed to poverty alleviation and political and economic settlements are characterised by disruptive class, ethnic or sectarian conflicts. Their ability to sustain viable programmes in fragile states like Afghanistan, Somalia and the DRC, ‘that have lost the ability to meet the demands of ‘empirical’ statehood’ and can no longer ‘exercise effective power within their own territories’ (Clapham, 1996, 21) is even more problematic.

Thus interactions between governments and other stakeholders with constrained powers, incompatible interests, limited capacities and contradictory and contestable rights and demands in fragile or fragmented states generate disruptive transaction and contestation costs and perverse incentives. Serious tensions exist in all aid relationships, but are most challenging in states where stakeholders answer to antagonistic groups, and operate in contexts dominated by intense poverty and insecurity, contested power relationships and knowledge systems and cultural norms. These conflicts cannot be removed through moral exhortation, unenforceable promises, or technical fixes. They can be allevi-
ated by the emergence of a progressive new regime, as we saw in Uganda in 1986, but donors can only challenge the authority of ‘bad’ governments in ‘rogue’ states, and do so even there at their peril, as the unresolved crises in Afghanistan, Iraq, Libya and Syria show.

These tensions and failures justify the claims of the aid critics, but not their demand to reduce it in the weakest states since they need it most as the rising tide of forced migration shows. Instead they demand a more realistic approach to managing and implementing interventions that learn from the failures and successes of the past, recognise the need to challenge the authority of repressive elites, and the limits of the neo-liberal assumption that free markets, democratic elections and ‘local ownership’ will produce pro-poor solutions that ‘do no harm’, in even the weakest states, as we will see in our concluding section.

3 Periodising Aid Relationships: From Authoritarian Structuralism to Poverty Oriented Development

The colonial powers used aid to build the infrastructure needed to sustain local raw material exports and their own manufactured exports, and relied on missionaries to run schools and health systems. (Brett, 1973, Ch. 4) They then gave post-colonial regimes tied aid to promote import substituting industrialisation, encouraging them to use often inappropriate high-technology exports from their own firms. (Burch, 1987) The west favoured mixed economies, the Soviet Union command planning, but both supported authoritarian regimes that succeeded in the strongest states, but failed in the weakest ones. This produced the crisis of authoritarian structuralism in the late 1970s when neo-liberal theory replaced structuralism as the orthodox global paradigm, and SAPs were used to produce the generalised shift from state to market-led development that still dominates the policy community. (Bauer, 1971; World Bank, 1981; Little, 1982; Lal, 1984)

LDCs and post-communist states went to the IFIs for help because their Articles of Agreement obliged them to provide them with fiscal and balance of payments support, and also allowed them to demand radical policy changes in exchange, although not to challenge incumbent regimes. Their financial support did rescue many regimes from collapse, but their shift from structuralist to market-based policies were justified on technical grounds, but also had radical structural and political consequences since it forced them to cut deficits, devalue currencies, privatise state-owned enterprises and reduce state controls over domestic and international markets. This produced radical changes in the allocation of wealth and power that benefitted strong firms and states, but were resisted by threatened groups, evaded by rent-seeking regimes, and imposed excessive demands on weaker states that lacked the capacities needed to implement them. Non-compliance, economic decline and increased inequality then led to widespread academic and political criticism of the ‘Washington Consensus’ and of the role of conditionality in achieving its goals. (Cornia, & others, 1987; Engberg-Pedersen & others, 1996; van der Walle, 2001; Brett, 2008; Ayers, 2013)

Recipients attributed these failures to neo-liberal policies; donors attributed them to their inability to use formal conditionality to oblige regimes to implement them. They therefore called for democratic reforms to improve accountability by replacing weak regimes, and/or to strengthen the ability of excluded groups to influence their behaviour. (Acemoglu & Robinson, 2006) They pushed these reforms through with the support of local and international social and political movements that had opposed their neoliberal reforms. This produced the ‘third wave of democratisation’ in LDCs and post-communist states, (Huntingdon, 1991; McFaul, 2002) that was accompanied by a shift from austerity oriented SAPs to Poverty Reduction Programmes (PRPs) that still focussed on market-
based policies, but also recognised the need to strengthen state capacity, and invest in pro-poor services, small-scale enterprises and micro-credit systems. (Hickey, 2012)

These reforms were institutionalised in the Millennium Development Goals in 2000, and then in the Paris/SDG Agreements, turning democracy and poverty reduction into a binding obligation. The MDGs were adopted at ‘the largest ever gathering of heads of state […] who promised’ to cooperate to advance development and reduce poverty by 2015. The Paris Agreement provided the ‘only globally accepted framework for concretely assessing donor progress towards aid effectiveness’, (Gulrajani, 2014: 91) by obliging donors to ‘take far-reaching and monitorable actions to reform the ways [they] deliver and manage aid,’ and committed recipients to "enhance democratic accountability", encourage "participation […] in setting development priorities’, reduce corruption, follow poverty reduction strategies, and create ‘equitable access to basic social services’. (Paris Declaration, paras. 1, 3, 4, 7, 10, 14-16, 20, 21, 38) The SDGs now confirm the need for ‘local ownership and leadership’ and the role of civic and private implementing agencies as well as states, and the need for significant improvements in human rights, pro-poor services and environmental sustainability.

These agreements represent a serious attempt to avert the tensions generated by earlier aid policies, but they ignore most of the obstacles to achieving them in a world dominated by unresolved economic crises, increasing inequality and exclusion, and intensifying political conflicts as we have seen. However, these crises have forced donors to address, rather than evade, the problem of bad governance and bad policies, and have confronted them with two key challenges - to persuade reluctant rulers to respond to democratic demands and implement pro-poor policies, and to strengthen the organisational systems needed to do so. They have turned to PEA to help them understand and respond to the first, and to New Public Management to address the second, as we will now see.

4 Political Economy Analysis (PEA) and Pro-Poor Development

The Challenge of Political Feasibility

According to DFID, PEA analysis should enable donors to ‘put politics at the heart of their actions,’ rather than treat their role ‘primarily in terms of the provision of financial and technical assistance to promote particular agendas around governance, growth or service delivery’, and thus ‘dispense advice on what ‘should’ be done’, without recognising the constraints and opportunities created by the political environment. (DFID, 2009: 5) It should therefore ‘encourage donors to think not only about what to support, but also about how to provide support, taking political feasibility into account’. (Ibid., Emphasis added)

DFID’s initiative began with a number of ‘Drivers of Change’ country studies in the early 2000s, (DFID, 2003) and was taken up by other leading donors during the following decade. (DANIDA, 2010; IADB, 2006; SIDA, 2006; World Bank, 2007, 2008) These papers did acknowledge the threat to their pro-poor agendas posed by clientalistic rulers, and the need to strengthen the ability of the poor to represent their own interests. Thus SIDA recognised ‘that power entails that poor groups have a voice, that central institutions and actors are responsive to the concerns of the poor, and that mechanisms are in place to hold these institutions and actors to account’. (SIDA, 2006: 26) And the World Bank accepted ‘that even the best technocratic designs can wither in infertile political soil’, so ‘powerful stakeholders, acting out of self-interest’, could impede the progressive allocation of resources and entitlements, so ‘the poor as a constituency’ needed to be empowered

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3 For a review of some cases see DFID, 2009.
through information and access, ‘thus becoming an effective actor in ensuring accountability and in determining the outcome of policy reform process’. (World Bank, 2007-9) Indeed DFID’s Drivers of Change studies actually provided them with an exemplary list of the obstacles to pro-poor policies posed by regressive regimes in weak states that included:

- patron-client relationships, neo-patrimonialism, systemic patronage or cronyism,
- corruption, state capture, wealthy and/or dominant elites determined to hold on to state power, the politicization of businesses and the phenomenon of ‘shadow states’ (or polities),
- personalistic political parties; ... weak, divided, deferential ... or impotent civil society organizations, ... limited or weak political ‘demand’ for rapid or realistic institutional reform, and minimal or non-existent ‘political will’,
- [no] clear and agreed overarching national economic strategy, project or set of socio-economic goals (other than in rhetoric),
- low levels of ‘stateness’, and hence, governance, with demoralised and politicised bureaucracies, dubiously independent judiciaries and (sometimes) militaries.’ (Summarised from Leftwich, 2006)

SIDA (2006: 14) also recognised that ‘politics involves harshly competing interests, bitter power struggles, and fundamentally conflicting values’, and that the ‘chain of voice, representation and influence tends to be cut by either discrimination ... or elite capture/corruption or both’. However, they also emphasised the ‘negative impact’ that their interventions could have on the conflict situation’ that could make ‘the situation worse for our partners .... in particular in situations where a government feels threatened by mounting opposition or when violent conflict is a growing threat. Given the many risks involved, prudence would seem to be good counsel’. (21)

Donors are therefore fully aware of the weaknesses that enable what Levitsky & Way (2010) call ‘competitive authoritarian regimes’ to retain power for long periods by suppressing demands from subordinate groups and evading their attempts to produce substantive democratic transitions, while intensifying crises in conflict states certainly justifies SIDA’s call for ‘prudence’. This does not preclude effective interventions, but does impose serious constraints on the nature and impact of their role. We look at their attempts to address this problem here, and possible reforms in Section 5.

Donors have to cooperate with authoritarian regimes and have therefore adopted an organic rather than conflict-based theory of political processes that draws heavily on recent literature that calls for the formation of ‘elite coalitions’ able to produce ‘political settlements’ by helping to resolve antagonistic political conflicts and create contexts favourable to progressive reform. (Khan, 2010; Putzel & DiJohn, 2012) This approach therefore heavily discounts the threat that rent-seeking elites pose to progressive policies by ignoring the strength of the zero-sum conflicts that dominate politics in fragmented and fragile states.

Thus DFID argues that PEA can be used to ‘inform our work on state building and peace building by identifying entry points for promoting an inclusive and stable political settlement’ though political reform, strengthening the state, improving service delivery, and working ‘outside the state to

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4 This claim is confirmed by extended discussions with donor officials in seminars and fieldwork conversations.
build progressive change coalitions across civil society, the private sector and the media’. (DFID, 2009: 1.10)

DANIDA (2010: 20, 27) calls for stakeholder analyses to identify likely sources of support or resistance to programming options, and to identify sound technical reforms that will ‘work with -- rather against -- the grain’, focussing on the incentives that drive politicians, bureaucrats and development partners on reform sequencing, the selection of partners, aid modalities, scale, and consensus building among key decision makers.

And the World Bank (2008) recognises that ‘powerful stakeholders’ can block progressive reforms, but then simply asserts that this ‘need not be seen … simply as risks or blockages to effective policy reform … [but] as opportunities if addressed proactively;’ and that ‘the recognition of power imbalances and the … goal of distributional equity need not be irreconcilable,’ but ‘imply the need for country and reform-specific strategies and policies in order to create or “progressively realign” institutions to encourage policy reform and distributional equity’. (2008: 9) This effectively aligns their approach with the Paris principles where reform depends on an inclusive process based on ‘partnership, participation and leadership’, between donors and local ‘stakeholders’, where local ‘state institutions take a lead’ and ‘the “voice” of civil society on the demand side’ must be included in the search for solutions ‘through policy dialogue’. (12)

Only DFID (2009: 1.11) talks about using PEA identify the impact of external variables on domestic governance, including ‘the role that donors play as political actors’ in order ‘to critically assess their own incentives and interests in partner countries, and ensure they “do no harm”’ and ‘unwittingly undermine the institutional fabric of a partner country or fuel conflict, as was the case in Nepal in the mid-1990s. [And one might add, in Iraq, Libya and Syria in the 21st Century.]

The Strengths and Weaknesses of Donor Driven PEA

Thus PEA does represent a serious attempt by donors to respond to the political obstacles to poverty focussed interventions, but reviews of their attempts to apply it demonstrate that that the weak structures and contradictory norms, incentives and political constraints that govern their relationships with weak states have imposed serious constraints on their ability to do so.

Thus Unsworth’s extensive review of the use of PEA analysis (2009) suggested that it has improved ‘the scope and quality of internal debate among donor staff’ by producing ‘greater awareness of neo-patrimonial political systems and their impact on development’, and allowed aid agents to address ‘issues normally reserved for informal, after-work conversations’. She also claimed that PEA has had ‘some important but limited’ consequences in DFID where they,

- recognised that the actions and behaviour of the elite-dominated government, bureaucracy and aid donors’ were part of the problem, and changed strategy’ in Nepal;
- have encouraged country managers to ‘make changes in project design and aid modalities’ and be ‘more realistic about the prospects for system-wide reforms, adopted more incremental approaches, developed new programmes incorporating a governance perspective’;
- and looked for more politically feasible approaches to the reform of state institutions’. (p. 887ff)

And SIDA claimed that its country studies led it to:
cancel a local government programme because of the ‘high risks of elite capture’ in Bangladesh;
identify the need for ‘more support to democratic governance issues and actors such as social movements and interest groups within civil society’ in Ethiopia;
and recognise the need for ‘thorough preparation of elected representatives, local administration as well as local civil society before delegating powers to the local level’ in decentralisation reforms in Burkina Faso, Mali and Mozambique. (SIDA 2006: 8)

However, most studies emphasise the limited nature of its impact.

Thus Unsworth’s excellent review (2009: 884) also showed that ‘there seems to be little appetite at higher levels of the bureaucracy for drawing the threads together’, so it is ‘influencing specific aspects of donor activity, [but] it is not prompting a more fundamental reappraisal of the implicit model of how development happens,’ while Booth (2011: 4) showed that national sovereignty had serious consequences because donors had to rely on patronial regimes so:

attempts to align aid programming with ‘country policies’ [lead to the] marrying up … of donor country portfolios with formally negotiated poverty reduction strategies [that regimes fail to implement]. This inevitably blocks clear thinking on the problem at the heart of the PEA project which is ‘how to get the developmental leadership that is currently lacking, and what role aid might possibly have in that.’ (emphasis added)

And Yanguas, & Hulme (2014) show that PEA recommendations are rarely adopted in donor practice, and attribute this to the limitations they imposes on donor strategies, their negotiations with local counterparts, the weakness of the research underpinning these projects, and the limited understanding of most local officials of the approach and its implications.

5 From Political Economy Analysis to Pro-Poor Politics

These critical reviews clearly demonstrate a significant gap between the ‘rhetoric’ of donor-driven PEA and its real impact on their ‘mainstream operational agendas’. (Unsworth, 2009: 884) However, it does provide the policy community with critical insights into the role of political variables in policy reform, and the limitations of formal conditionality in obliging weak states to adopt pro-poor programmes. PEA recognises that aid effectiveness does indeed depend ‘primarily on efforts at the country level,’ and on the need for donor to ‘focus on facilitating these efforts, not on trying to replace them’, (Booth 2011: 3) and provides us with the best informed analysis yet available of the challenges involved in combining ‘local ownership’ with pro-poor policies. These official policies have been informed and taken forward by a growing community of policy theorists that are generating more flexible, pluralistic and inclusive approaches to development than before.5 (Andrews, 2014; Levy, 2014; Pritchett, Woolcock, & Andrews, 2010) This emerging consensus does mark a paradigm shift from the neo-liberal models that dominated the previous era, but that need to pay far more attention to problems of political resistance and conflicting interests as we will now show.

Doing Development Differently

The emerging consensus calls for interventions that work ‘with the grain’ of local needs, capacities, and interests, (Levy, 2014) and refrain from imposing ‘best practice’ models on LDCs based on a

5 I owe this point to Duncan Green. For a review see Green, (2013).
‘Hegelian teleology’ that assumes the existence of a ‘common historical path culminating in convergent institutional forms’ and to try instead to enhance ‘functioning (or performance levels), achieved via whatever means enjoys political legitimacy and cultural resonance in the contexts wherein such change is being undertaken’. (Pritchett, Woolcock, & Andrews, 2010: 2) Instead they seek to replace ‘comprehensive governance reform’ by a ‘theory of change, … where micro-level initiatives provide a platform for the emergence of ‘islands of effectiveness’ within a broader sea of dysfunction — securing some gains in the short term, and serving as a platform for cumulative gains over the longer-run in both governance and poverty reduction. (Levy, 2014, Outline)

The approach has been summarised in the ‘Doing Development Differently’ manifesto (2014) endorsed by more than 400 leading practitioners and policy analysts. It calls for:

- cooperation between ‘governments, civil society, international agencies and the private sector – working together to deliver real progress in complex situations and despite strong resistance’;
- a focus on ‘solving local problems that are debated, defined and refined by local people’ and ‘legitimised at all levels (political, managerial and social), building ownership and momentum throughout the process to be ‘locally owned’ in reality’;
- ‘work through local conveners who mobilise all those with a stake in progress’;
- And blend design and implementation through rapid cycles of planning, action, reflection and revision (drawing on local knowledge, feedback and energy) to foster learning from both success and failure’;

These insights complement DFID’s search for ‘entry points’ for promoting an ‘inclusive and stable political settlement…. [and to] identify how we might work outside the state to build progressive change coalitions across civil society, the private sector and the media’, (2009: 1.10) find “second best” reforms’, and avoid ‘doing harm’ by “unwittingly undermining the institutional fabric of a partner country or fuel conflict’. (Ibid., 5/6)

Thus, PEA theory and the DDD manifesto recognise the possibility of ‘strong resistance’ to progressive change, but then virtually ignore the threat that it poses for local and external change agents attempting to promote it. This approach can facilitate cooperative solutions in societies that ‘are already led by people for whom national development is a central objective’, and have already created the institutional arrangements and capacities needed to overcome the zero-sum conflicts and perverse incentives that block progressive solutions, as Booth rightly points out. (2011: 3)

However, they both underestimate the political threats to aid effectiveness we identified earlier, and the need to transform the authoritarian institutions that enable their rulers and supporters to suppress the local movements that they rely on to ‘mobilise all those with a stake in progress’. Hence donors do need to build cooperative relationships with progressive local leaders and movements, but they also need to help them resist repressive regimes by strengthening the institutions and movements that sustain democratic statehood, and the accountability mechanisms that enable them to oblige their service-delivery agencies with to provide them with better services.

Creating the Capacity for Democratic Statehood

The demand for structural institutional change made by modernisation theorists since the end of the 18th century cannot be simply ignored in societies dominated by repressive authoritarian institutions like North Korea or Syria. Serious theorists do not assume that these transitions must take place and generate a linear transition to modernity, but they do, rightly, argue that liberal democratic states, or
‘open-access social orders’, (North et al., 2009) are a necessary pre-condition for progressive co-operative solutions. This, as the Inter-American Development Bank (IADB, 2006: 8-10) points out, is because they enable outcomes to be influenced by a ‘multiplicity of actors with diverse powers, time horizons, and incentives’, and facilitate ‘systems that encourage cooperation, consensus on policy orientation and structural reform programs’ in societies with ‘political parties that are institutionalized and programmatic, legislatures that have sound policymaking capabilities, judiciaries that are independent, and bureaucracies that are strong’. Besley & Perrson, (2011) provide us with convincing evidence that this is actually the case.

Thus donors can only build ‘inclusive and stable political settlements’ and ‘do development’ co-operatively in societies that have already begun to move down the Hegelian road from a closed to an open access order. (North, et. al., 2009) They are no longer willing to cede ‘local ownership’ to dictators supported in the past like Mobutu, Pinochet or Mengistu and can now rely on a generalised transition to partial democracies, strongly driven by donor interventions, (Levitsky & Way, 2010) to create contexts which facilitate rather than suppress cooperative settlements and compromises. However, these transitions are still incomplete in the weakest states enabling repressive regimes to use their power and to subvert these processes as we have seen. Thus donors should not ignore the macro-institutional issues raise by the need to consolidate their democratic and liberal transitions, as well as ‘micro-level’ initiatives designed to address local level problems.

This does not to require them to engage in partisan political conflicts. Good governance programmes began in the 1990s, but have been neglected because they are politically sensitive, demand long-term investments, and were not prioritised by the neo-liberal economists attempting to reduce the role of the state. Prioritising countries that already had ‘good’ policies weakened state capacity and social and political capital in those that needed the most help. Allocating aid on the basis of performance evaluations and ‘value-for-money’ indicators in short-term projects also penalised weaker states and discouraged long-term investments in social, economic and political capital that are hard to evaluate because they produce diffuse and indirect results. Thus DIFID has produced many of the key insights in PEA theory, but its recent practice virtually ignores ‘political risks’ and has been dominated by the demand for technical solutions and impossibly rigorous project development, monitoring and evaluation procedures.

Thus donors should not be condemned for their use of conditionality to impose democratic transitions on authoritarian regimes, with the support of progressive local political movements equally committed to the need for ‘modern’ institutions. As Schuurman says,

Social movements (new and old) in the Third World are not expressions of resistance against modernity; rather they are demands for access to it…. Citizenship and Participation (Enlightenment ideals!) are (directly or indirectly) highly regarded by these social movements; participants want access to welfare and wellbeing. They are no longer willing to be shifted to the sidelines. (1993: 27)

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6 For an extended analysis of these issues see Brett, 2009.
7 This claim has dominates orthodox political theory since the 17th century; the difficulties involved in moving from authoritarian to democratic systems have been explored in some recent seminal texts.
8 For analyses of the problem of democratic consolidation see Bourdieu, 1992; Douglas, 1986; Moore 1969; Linz & Stepan, 1996; Olson, 1997: 45ff; Kohli, 2004; Tilly, 2007; North et. al., 2009.
9 This is clear in its 2011 ‘revised logical framework where the the problem of ‘political risks’ is relegate to a few lines in the final Annex. See also Yanguas and Hulme (2015) for DIFID’s very limited use of PEA in the field.
However these initiatives will constantly be subverted by repressive regimes until they have also find effective ways of strengthening state capacity, as we have seen and the ability of excluded elites and subordinate classes to engage in public policies.

Strengthening the Political Capacities of Excluded Classes

Authoritarian rulers need not implement pro-poor policies unless their excluded elites and subordinate classes can operate as ‘effective actors in ensuring accountability and in determining the outcome of policy reform processes’, as the World Bank (2008: 9) said. Formal elections should increase their leverage, but are subverted by rulers in clientalistic societies who can also capture the representative organisations needed to enable them to participate effectively in public politics. (Levitsky & Way, 2014) Discontented activists can occasionally destabilise vulnerable regimes, but the poor can only operate as autonomous political agents when they are not economically dependent of dominant elites (Tilly, 2007) and are represented by effective parties and interest groups that rarely exist in fledgling democracies. (Brett, 2013)

Mature democracies depend on a few encompassing political parties that compete for power, and many formal and informal associations that enable a diverse range of social and economic groups to influence public politics. (Faguet, 2012, Ch. 6) However, autonomous and diverse representative organisations are incompatible with the vertical clientalistic linkages that dominate traditional societies or with the official parties and civic organisations used to control opinion and suppress dissent in totalitarian regimes. Oppressed groups ‘rarely overthrow an autocrat simply because they would be better off if they did so’, (Olson, 2000: 133) but depend on autonomous organisations like Solidarity in Poland, the African National Congress in South Africa or the National Resistance Movement in Uganda to demand democratic rights in authoritarian societies, and to play the key role in consolidating democratic transitions, but atomised social movements like the Tahir Square activists in Egypt cannot hope to do so despite their mobile phones.

Hence donors cannot treat weak states as ‘systems that [already] encourage cooperation, consensus on policy orientation and structural reform programs’, (IADB, 2008) and assume that elections are likely to encourage inclusive political settlements, given the intensity of the conflicts between foreign and domestic capitalists and workers, landlords and tenants, poor peasants, petty producers, women, tribes and sects, as we have seen in pre-war Germany and modern Zimbabwe.

Thus J.S. Mill’s classic review of democracy’s ‘infirmities and dangers’ (1861/1910: 248, 254) recognises that elections can enable any group with a ‘sinister interest’ that ‘conflicts with the general good of the community’ to implement ‘class legislation …to the lasting detriment of the whole’; and Olson (1997: 46/7) shows that democracies that enable well organised sectional interests to exploit the weaknesses of weak ones can produce worse results than rational despots. Mill also shows that these danger cannot be averted by asking people to enter political settlements that reduce their right to maximise their own ‘selfish’ interests, but only by building political systems where none of the ‘various sectional interest [can] be so powerful as to prevail against truth and justice and the other sectional interests combined’. (256) This is a tall order fragmented and fragile states where winning political power can make the difference between prosperity and destitution.

DIFID’s Drivers of Change studies showed how rent-seeking incorporate the poor into clientalistic networks and capture the parties and associations that should represent their interests. (also see Michels, 1911/1962) Donors cannot rely on conditionality or moral exhortation to strengthen the ability of excluded elites and the poor to force repressive regimes to acknowledge their right to ‘binding
consultation’, (Tilly, 2007: 59) or invest directly in organisations involved in partisan politics.\textsuperscript{10} However, they can help them to develop the consciousness and organisational capacities needed to do so, beginning in authoritarian states and continuing partial democracies until their transitions to an ‘open access order’ have been completed. (see fn. 9)

The PEA literature recognises the need to do this, but they could do more to strengthen civil society and the state by investing in the organisational capacity of business and labour organisations, civic associations, the media and advocacy groups, and to tertiary education that has been neglected out of a misplaced egalitarianism, and thus weakened the society’s leadership capacity that is an essential pre-requisite for long-term democratic development.

Organisational Design, Institutional Pluralism, and Poverty Oriented Development

The aid literature has concentrated on the macro-level relationships between donors and their local counterparts, rather than the micro-level ‘agency’ problems involved in reforming the organisational systems that determine the terms on which recipients relate to service providers. DFID (2009: 6) briefly raises the issue, noting that ‘prevailing political realities’ were generating perverse incentives and poor performance, and calling for ‘new institutional arrangements and “second best” policies … to mitigate the impact of patronage politics’, or to find ways to enable’ relevant interest groups from the private sector or civil society [to] become better organised to demand reform’. Levy (2014) also emphasises the need for ‘micro-level initiatives’ to generate ‘islands of effectiveness that must also depend on an ability to achieve this goal.

Now these agency problems can only be solved by reforming the incentive and authority systems that govern public and private service delivery systems. This problem imposes complex technical and political demands, but it also represent the most promising area for progressive change in weak states. These issues are addressed in New Public Management (NPM) theory that has transformed service delivery in DCs and LDCs since the 1980s by using what I have called ‘liberal institutional pluralism’ to overcome the limitations of one-sided structuralist or neo-liberal paradigms.\textsuperscript{11} (Brett, 2009: chs. 4 & 12) NPM theory now dominates the day-to-day policy decisions being made by donors and local regime, and the challenges confronting change agents involved in programme and project design. It allows donors to focus most of their resources on progressive programmes and projects, like health and education, that even rent-seeking rulers are willing to support,\textsuperscript{12} and to increase inclusion and accountability by creating systems that increase the ability of recipients to use voice and/or exit to demand better services from their agencies. (Hirschman, 1970; Paul, 1992)

Liberal pluralism recognises that states, firms, civil society organisations, (CSOs) and informal or ‘traditional’ community based organisations (CBOs) can provide almost any service, but that they each provide managers with different types of authority and incentives, and allow recipients to exercise different kinds and degrees of leverage over them. NPM theory identifies the strengths and weaknesses of each organisational type, and enables practitioners to make informed choices between them, rather than ideologically driven choices between state, market or solidaristic systems. They do this by choosing agencies with incentive and accountability systems that are compatible

\textsuperscript{10} The German Political Foundations are an important exception to this rule.


\textsuperscript{12} I owe this point to Jean-Francois Cautain, EU Ambassador to Pakistan.
with the type of service, the needs and resources of recipients, the nature of the regulatory regime, and the society’s social and human capital. The World Bank’s 2004 World Development Report (WDR) on servicing the poor provides us with a seminal review of the approach, arguing that:

governments and citizens’ can do better by ‘enabling [poor people] to monitor and discipline service providers, by amplifying their voice in policymaking, and by strengthening the incentives for providers to serve the poor. [They can] use … central government provision, contracting out to the private sector and nongovernmental organizations, decentralization to local governments, community participation, and direct transfers to households’ to do so, and they emphasise the need to reward ‘the effective delivery of services and penalize the ineffective’ and for donors to strengthen ‘accountability … between poor people and providers, between poor people and policymakers, and between policymakers and providers,’ and thus help recipients to ‘monitor and discipline providers’, and ‘reduce the diversion of public services to the non-poor for political patronage’. (p. 1)

This approach is fully compatible with the pluralistic assumptions of the DDD movement because it gives practitioners a menu of organisational options, rather than an externally designed template, and one that incorporates the possibility of ‘hybrid’ solutions that combine external and local practices in creative ways in order to take account of the weaknesses and conflicts that characterise fragile and fragmented states. (Malinowski, 1945/1961; Brett, 2009 Ch. 12; 2016) However, it also raises challenging technical and political issues – first, the need for a sophisticated understanding of the authority, incentive and accountability systems that characterise each organisational type and of the contextual variables that enable particular local societies to manage them, and second, the ability to manage the costs they impose of groups with a vested interest in the status quo.

- Authority in states should depend on a monopoly of force, incentives on the ability to tax, and accountability on democratic elections, and the ability to withhold taxes or civil resistance where legal processes fail.
- Authority in firms depends on private property rights, incentives on sales and profits, and accountability on market competition.
- These systems vary in CSOs and informal or traditional institutions like households, kinship networks, clans or tribes. Authority can depend on inheritance, appointment, or election; incentives on donations, social esteem, affectivity or reciprocal exchange; and accountability on reputation, ethical obligation or competition for support.

These different systems determine the terms on which agents relate to recipients, and their efficacy depends on local cultural values, human and social capital and endowments. Strong states provide good services, fragmented and fragile ones do not; competitive firms provide low-cost goods, weak ones do not; solidaristic agencies succeed in societies with the necessary social capital but not in those divided by class, ethnic or sectarian antagonisms; local people may have the skills and dispositions needed to manage ‘indigenous’ organisations, but not ‘modern’ ones. Thus the efficacy of each organisational type differs dramatically in societies at different stages of development, obliging practitioners to make qualitative judgements about what to do, how, where and when.

Second, invoking these options always changes the allocation of power and wealth in society, and has radical political implications. Critics see NPM as a neo-liberal strategy used to design and justify market based administrative reforms and privatisation and subcontracting and decentralisation of state services to firms, NGOs or local governments. They have also shown the these reforms have often enabled regressive regimes to appropriate rents and reward crony capitalists and transferred resources to unaccountable NGOs and CSOs, or to illiberal traditional institutions that reinforce the
power of repressive elites and traditional practices. However, NPM can also be used to strengthen the ability of the state to regulate the whole system and redistribute resources, and to weaken the ability of repressive rulers to use old-style monopolistic state bureaucracies to extract rents and suppress opposition as they did in command economies and authoritarian structuralist states.

Thus the success or failure of NPM cannot be guaranteed, but depends, in the last analysis, on the ability of progressive social and political movements, including donors themselves, to use its insights to strengthen their capacity to demand progressive reform, and resist attempts by their opponents to block them. And donors, as we have seen, can best help them do this through long-term investments in the agencies that supply pro-poor services and the awareness of the beneficiaries that receive them; in strengthening state capacity and the political capital of excluded classes; and by acknowledging the need for a long-term transition to ‘best practice’ institutions, but accepting the need for ‘second best’ hybrid solutions that incorporate and adapt ‘indigenous institutions’ and thus enable them to generate new and better solutions that local people can actually ‘own’.

Conclusions

We described the indispensable contribution that the aid system makes to the liberal global order, its varied and uneven results, and the difficulties it now confronts in achieving the progressive goals embedded in the agreements that have replaced the heavily contested rules that governed aid relationships during the cold war and structural adjustment periods. We showed that aid relationships succeed when donors cooperate with progressive regimes, but confront major problems in fragile and fragmented states. We showed that aid is an intrinsically political process, but one that generates complex and often contradictory relationships where donor and recipient interests diverge. We reviewed the strengths and weaknesses of recent donor attempts to incorporate political-economy variables into their programmes and practices using PEA analysis, and showed that they could use it to further strengthen their ability to improve aide-effectiveness by making long-term investments in the political and organisational capacity of excluded classes, and using new public management theory to reform agency-recipient relationships in their projects and programmes.

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