



## **Aid, Political Economy and Governance Reform<sup>1</sup>**

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Paper for the Symposium ‘Global Governance and the Politics of Aid’,  
University of Bradford, 30 April-1 May 2015

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<sup>1</sup> This paper is based on and draws from the joint work undertaken by Wil Hout, Caroline Hughes, Jane Hutchison and Richard Robison as part of the project ‘Achieving Sustainable Demand for Governance: Addressing Political Dimensions of Change’, which was supported by the Australian Development Research Awards (ADRA). The paper reflects the ideas published in: Jane Hutchison, Wil Hout, Caroline Hughes and Richard Robison, *Political Economy and the Aid Industry in Asia*, Basingstoke: Palgrave Macmillan, 2014.

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## 1. The Rise of Political-Economy Analysis for Development Assistance

Political-economy analysis has been a favourite instrument among donors of development aid since roughly the turn of the century. The usefulness of such forms of analysis has been emphasised because donors realised that their focus on formal aspects of the social and political organisation of countries caused them to overlook important elements of the ‘political economy’ of these countries.<sup>3</sup> As a result of this, political and governance reform programmes, which had become part and parcel of the agenda of development under the Post-Washington Consensus, turned out to be much less effective than anticipated.

The call for donor agencies to ‘look behind the façade’<sup>4</sup> of formal institutions in developing countries has thus come as part of the aid effectiveness agenda. It was argued that the effectiveness of development assistance policies would be enhanced if the realities of social and political power structures in developing countries were mapped and fed into the design of governance reforms targeting those countries. A more or less tacit assumption in this approach was that political-economy analysis would enable donors to identify potential pockets of resistance against the reforms that donors were advocating – hence improving the chances of getting reforms accepted.<sup>5</sup>

Examples of political-economy approaches adopted by donors include the Drivers of Change approach developed by the UK’s Department for International Development in the early 2000s, the Strategic Governance and Corruption Analysis adopted by the Dutch Ministry of Foreign Affairs in 2007, and the World Bank’s approach to the political economy of policy reform and its problem-driven governance and political-economy analysis, presented in 2008-9. The Demand for Good Governance programme, implemented under the aegis of the World Bank, with active participation of Australia’s aid agency, AusAID, has attempted to implement insights from political-economy analysis in development policy.

A key element of most or all of the approaches to political-economy analysis appears to be their identification of different ‘layers’ of analysis: below the daily events in every political system, there are the institutional arrangements (the ‘rules of the game’) that impact on day-to-day politics by influencing the policy options that politicians have. Even more fundamental are so-called ‘structural’ elements, which relate to the history of the country under discussion, its natural resource endowment, and the power distribution over social groups. Improvement of the understanding of the rules of the game, and more fundamentally even the structural features of developing countries, is believed to be the key contribution made by political-economy analysis.<sup>6</sup>

## 2. The Problem with Political-Economy Analysis

The political-economy approaches that were adopted by development agencies demonstrate various weaknesses.<sup>7</sup> First, problems exist in the design and application of the instruments that were adopted

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<sup>3</sup> Cf. Copestake, J. and Williams, R. (2014) ‘Political-Economy Analysis, Aid Effectiveness and the Art of Development Management’, *Development Policy Review* 32(1): 133-154.

<sup>4</sup> This term is used in, among others, Harth, K. and Waltmans, J. (2007), ‘Behind the Façade: The Informal Reality in Developing Countries’, in Ministry of Foreign Affairs, *A Rich Menu for the Poor: Food for Thought on Effective Aid Policies*, Essay 3.

<sup>5</sup> This approach comes out very clearly in: Fritz, V., Kaiser, K. and Levy, B. (2009) *Problem-Driven Governance and Political Economy Analysis: Good Practice Framework*, Washington, D.C.: World Bank.

<sup>6</sup> For instance: Warrener, D. (2004) *The Drivers of Change Approach*, Synthesis Paper 3, London: Overseas Development Institute; Ministry of Foreign Affairs (2008) *Framework for Strategic Governance and Corruption Analysis (SGACA): Designing Strategic Responses Towards Good Governance*, The Hague: Ministry of Foreign Affairs.

<sup>7</sup> See for a more elaborate discussion of these weaknesses: Hutchison, J. Hout, W., Hughes, C. and Robison, R. (2014) *Political Economy and the Aid Industry in Asia*, Basingstoke: Palgrave Macmillan, pp. 13-73.

by several aid agencies. Secondly, there is a difficulty involved in the translation of the lessons of the political-economy analyses into concrete policies of reform. Thirdly, the core assumptions of most of political-economy analysis revolt against the correct identification of reform coalitions in the developing countries that are targeted by the aid agencies. These three weaknesses are discussed in the next three sub-sections.

### **2.1 The Political Economy of Donor Agencies**

A first major problem with the recent implementation of political-economy analysis is related to the way in which such analysis is embedded within the set of instruments that is available to donor agencies. Essentially, this problem calls for a political-economy of donors themselves, as the interests *of* and conflicts *within* donor governments need to be understood to see why the implications of political-economy analysis are not likely to be followed to their logical conclusions.

Donor agencies need to be perceived as creatures with special features within the realm of government. In the words of William Easterly, donor agencies are in the business of ‘moving money’.<sup>8</sup> As a result of their mandate, staff incentives staff in the aid agencies are related, most importantly, to the disbursement of funds allocated to them for development projects and programmes. The everyday practice of donor agencies forces them to be more concerned with the implications of their ‘logical frameworks’ than with the environment they work in. For donors, ‘doing development’ is, first and foremost, implementing programmes and projects

The perceived need to spend money – for instance, increasingly through so-called budget support modalities, which are felt to be most in line with the objectives of the Paris Declaration, such as alignment and ownership<sup>9</sup> – can easily come into conflict with the conclusions derived from political-economy analysis. Recent controversies over budget support arrangements to regimes engaged in foreign military operations (such as Rwanda) or found to be practicing corruption (such as Uganda) illustrate the tensions inherent in contemporary policies that are subject to ‘results-based accountability’.

Apart from the bureaucratic cross-pressures characterising donor agencies, such agencies are also subject to greater influences related to the role they play in their national political environments. Development assistance policies need to be understood as part of the foreign-policy framework of governments. Hence, decisions on how and where to allocate aid are part of the foreign-policy equation. Foreign policy is generally understood as an instrument to further the strategic and commercial interests of countries, and development assistance can only escape from the foreign-policy parameters to a limited extent, as much research on the impact of ‘donor interests’, ‘recipient needs’ and ‘normative ideas’ on aid allocation has shown.<sup>10</sup> It is not surprising that decisions on development assistance are often guided at least as much, or more, by perceived geostrategic and economic interests of donors as they are by their desire to ‘do good’ in the countries of the global South.<sup>11</sup> Moreover, the relatively low position of development agencies in the pecking order of policy making reduces their leverage in budget negotiations vis-à-vis other government departments – such

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<sup>8</sup> Easterly, W. (2002) ‘The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid’, *Journal of Economic Policy Reform* 5(4): 228.

<sup>9</sup> Cf. Molenaers, N. (2012) ‘The Great Divide? Donor Perceptions of Budget Support, Eligibility and Policy Dialogue’, *Third World Quarterly* 33(5): 791-806.

<sup>10</sup> E.g., Clist, P. (2011) ‘25 Years of Aid Allocation Practice: Whither Selectivity?’, *World Development* 39(10): 1724-1734.

<sup>11</sup> E.g., Lancaster, C. (2007) *Foreign Aid: Diplomacy, Development, Domestic Politics*, Chicago: University of Chicago Press; Van der Veen, A.M. (2011) *Ideas, Interests and Foreign Aid*, Cambridge: Cambridge University Press.

as credit-insurance agencies –, which have a much easier job in justifying their activities in terms of the national interest.

Likewise, the relative weakness of development agencies is observable in the application of political conditionalities related, among other things, to human rights norms. In this vein, the short-lived freezing of the UK's aid disbursement to Rwanda over allegations that the Kagame government has been involved in the civil war in the Democratic Republic of Congo may serve as an example. Although the evidence about Rwanda's involvement was very stark – which prompted Germany, Sweden and The Netherlands to maintain their freeze of aid – the UK's Secretary of State for International Development indicated after barely one month that there was sufficient proof that Rwanda had 'engaged constructively with the peace process' and that resumption of the £16 million in budget support to the country was therefore justified.<sup>12</sup>

## **2.2 The Political Economy of Donor-Recipient Relations**

A second main factor impacting on the relevance of political-economy analyses is connected to the dynamics inherent in donor-recipient relations. The specific nature of the relationship, which has been defined by many as a situation of dependence, has a major impact on the ability of donors to influence the course of reforms in developing countries.

Dependence has been assumed too easily to imply a complete renunciation of recipient governments to the policy objectives of the donors. Such an interpretation of donor-recipient relationships does not pay sufficient attention to the tools that recipient government possess to serve their own interests. The powerful instruments of recipient governments were, of course, clearest during the Cold War, when allegiance to one of the superpowers brought advantages in terms of foreign aid allocations. Yet, also after the end of the Cold War, recipient governments have retained important means to look after their own interests. Apart from the obvious strategic interest of the West in particular natural resources – now more and more subject to competition with emerging economies such as China – recipient governments have played out the card of 'the politics of the mirror'. In the rather cynical words of Chabal and Daloz, which seem to have mileage in relation not just to Africa but to regimes across the developing world more broadly:

This consists essentially in addressing the foreign 'other' – in this case, potential aid donors – in the language that is most congenial and, crucially, most easily reinforces the belief that they (outsiders) understand what Africa needs. Thus it was that Africans conspired to support the colonial notion that they were all divided into discrete and identifiable 'tribes' and, later, convinced their colonial masters that they intended to run the politics of their newly independent countries on the principles of multi-party parliamentary systems. Thus it was too that some African leaders became overnight the proponents of scientific socialism or adhered wholeheartedly to the proposals for development projects which came their way.<sup>13</sup>

Next to this, dependence regularly leads to the assumption that governance reform can be used to neutralise vested interests by installing technocratic, 'a-political' rule. Thus, market-oriented precepts

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<sup>12</sup> Blair, D. (2012) 'Britain Accused of "Disastrous Signal" by Resuming over Rwanda Aid', *The Telegraph*, 5 September, <http://www.telegraph.co.uk/news/worldnews/africaandindianocean/rwanda/9523969/Britain-accused-of-disastrous-signal-by-resuming-over-Rwanda-aid.html> (accessed 29 October 2014).

<sup>13</sup> Chabal, P. and Daloz, J.-P. (1999) *Africa Works: Disorder as Political Instrument*, Oxford: James Currey, p. 117.

of public sector reform, performance-based financing and results-based accountability – which are all related, in one way or another, to New Public Management or what Cooke and Dar, among others, have called the ‘new development management’<sup>14</sup> – are used to legitimise governance reform as conditionalities to development assistance. In many cases, however, donor agencies and reform-resistant power-holders end up being ‘strange bedfellows’.<sup>15</sup> Reform programmes that seem to comply with the demands issued by donors may relatively easily be hijacked by special interest groups, which appear to be playing along with the donors but are mainly motivated by their own interests. The way in which the later ‘oligarchs’ benefited from privatisation policies in Russia in the 1990s is probably the starkest examples of how reform programmes are seized to serve the interests of particular elites. Similar, possibly less extreme but very likely equally devastating, examples can be found in the implementation of development programmes, such as in the World Bank’s Demand for Good Governance Programme in Cambodia and participatory budgeting programmes in Mataram, Indonesia.<sup>16</sup>

### ***2.3 The Political Economy of Reform Coalitions***

A third major problem concerning donors’ political-economy analysis relates to the nature of reform and the driving forces behind the establishment of reform coalitions in developing countries. Here, one of the most important issues concerns the assumption that development can be defined in terms of ‘public goods’ characteristics. The assumption seems to be that Pareto-optimal solutions can be found in development strategies if donors, in cooperation with recipient governments, apply the correct technical instruments to bring about development. Poverty reduction, as the main target of contemporary development policies, can thus be perceived as non-exclusive and non-rivalrous – and thus subsumed under the public goods framework – since it actually makes everyone better-off.<sup>17</sup>

The understanding of development in terms of a public-goods logic is essentially a-political, since it fails to recognise that easy, Pareto-optimal outcomes are not so obvious. Development is, rather, a process that is inevitably conflict-ridden. The main reason for dissenting with the optimistic assessment of donor agencies is that development *presupposes* the existence of a particular institutional order, which benefits some social-economic groups more than others. The spreading of the fruits of development more generally – that is, to groups that have traditionally been marginalised and disenfranchised – would essentially imply a restructuring of the institutional order. Groups that have traditionally benefited from the existing social, economic and political institutions will perceive change as inimical to their interests, and thus will attempt to ward off reform. The restructuring of the institutional order is an inherently political process – understood in the classical Lasswellian sense of

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<sup>14</sup> Cooke, B. and Dar, S. (2008) ‘Introduction: The New Development Management’, in S. Dar and B. Cooke (eds) *The New Development Management: Critiquing the Dual Modernization*, London: Zed Books, pp. 1–17; Gulrajani, N. (2011) ‘Transcending the Great Foreign Aid Debate: Managerialism, Radicalism and the Search for Aid Effectiveness’, *Third World Quarterly* 32(2): 199–216.

<sup>15</sup> Cf. Robison, R. (2009) ‘Strange Bedfellows: Political Alliances in the Making of Neo-liberal Governance’, in Hout, W. and Robison, R. (eds) *Governance and the Depoliticisation of Development*, London: Routledge, pp. 15–28.

<sup>16</sup> These cases are analysed in depth in Hutchison et al. (2014) *op.cit.*, pp. 84–93, 114–125 and 139–145.

<sup>17</sup> This seems to be the implication of the UNDP’s work on global public goods, though this conclusion remains largely implicit. See Kapstein, E.B. (1999) ‘Distributive Justice as an International Public Good: A Historical Perspective’, in Kaul, I., Grunberg, I. and Stern, M.A. (eds) *Global Public Goods: International Cooperation in the 21st Century*, New York: Oxford University Press, pp. 88–115.

the process that determines who gets what, when and how<sup>18</sup> – and cannot, therefore, be seen as a merely technical undertaking, which produces easy efficiency-optimising solutions.

The main flaw of mainstream political economy, which is intimately connected to the a-political understanding of development, is that the political process can be understood in liberal/pluralist terms. The pluralist theory of politics, which sees the political process as an essentially benign struggle for power among groups, is insufficiently able to understand the difficulty that the marginalised and disenfranchised experience when trying to get access to the political arena in the first place. As a result of the pluralist bias, conventional political-economy approaches assume that governance reform can be achieved by engaging with enlightened technocrats, who can be won over to the side of the well-intended donors by promising development assistance.

The Developmental Leadership Program (DLP), which was established in July 2009 and is funded by the Australian government with the help of other donor agencies,<sup>19</sup> is an example of an approach that aims to achieve governance reform for development purposes. The DLP chooses an explicitly political starting point for its approach to governance reform,<sup>20</sup> but is clearly buying in to the pluralist assumptions underlying much of today's political-economy analysis. As argued by Leftwich and Hogg in a background paper for the programme, the main challenges for achieving economic growth and social development in developing countries are defined as 'collective action problems. If these problems are to be resolved, enough leaders, elites and reform agents – often with different initial interests and coming from different sectors – have to work collectively and cooperatively'.<sup>21</sup> In the view of Leftwich and Hogg, many developing countries lack leaders with 'wider "national" goals'. Yet, they argue that

where enough leaders and elites are able to generate positive "synergies" within and between the interests, organizations and institutions of both the state and the private sector, on the basis of shared social purposes, they are able to form "developmental", "growth" or "reform" coalitions, capable of devising or reforming institutions which promote economic growth and social development across a range of sectors and challenges.<sup>22</sup>

In a similar vein, the World Bank's Demand for Good Governance demonstrates a similarly pluralist orientation. The focus of this programme is not so much on elites, but rather on the impact of civil

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<sup>18</sup> Lasswell, H.D. (1951) 'Politics: Who Gets What, When, How' (orig. 1936), in *The Political Writings of Harold D. Lasswell*, Glencoe: Free Press, pp. 295-264. The first sentence of Lasswell's work is: 'The study of politics is the study of influence and the influential'.

<sup>19</sup> See <http://www.dlprog.org/about-us.php> (accessed 29 October 2014).

<sup>20</sup> The DLP defines politics as 'all the activities of conflict, negotiation and co-operation which occur when people with different interests, ideas, power and influence have not only to shape and abide by common institutions, but also to take decisions about how resources are to be used and distributed and about how power is to be gained and used'. See Leftwich, A. and Hogg, S. (2011) *The Developmental Leadership Program: Overview and Objectives*, Developmental Leadership Program Background Paper 05, p. 2, <http://www.dlprog.org/publications/overview-and-objectives-the-developmental-leadership-program.php> (accessed 29 October 2014).

<sup>21</sup> Leftwich, A. and Hogg, S. (2007) *The Case for Leadership and the Primacy of Politics in Building Effective States, Institutions and Governance for Sustainable Growth and Social Development*, Developmental Leadership Program Background Paper 01, p. 5, <http://www.dlprog.org/publications/leaders-elites-and-coalitions-the-case-for-leadership-and-the-primacy-of-politics-in-building-effective-states-institutions-and-governance-for-sustainable-growth-and-social-development.php> (accessed 29 October 2014).

<sup>22</sup> *Ibid.*

society as a mechanism to hold governments accountable and achieve better development outcomes. As the World Bank's website describes the aims of the programme:

'Demand for Good Governance' (DFGG) refers to the ability of citizens, civil society organizations and other non state actors to hold the state accountable and make it responsive to their needs. DFGG encompasses initiatives that focus on citizens as the ultimate stakeholders and include activities relating to information disclosure, demystification and dissemination; beneficiary/user participation and consultation; complaints handling; and independent and/or participatory monitoring. ... DFGG aims to strengthen the capacity of NGOs, the media, local communities, and the private sector to hold authorities accountable for better development results. DFGG activities include development approaches that focus on citizens as the ultimate stakeholders for better governance. DFGG mechanisms can be initiated and supported by the state, citizens or both but very often they are demand-driven and operate from the bottom-up.<sup>23</sup>

In contrast to the political-economy approach sketched above, the rest of this paper is informed by a structural political-economy perspective, which rejects the conflict-free conception of development. This perspective understands development as a permanent process of institutional restructuring, with the aim of achieving resource redistribution. This process, which requires the giving up of certain privileges by particular elites in favour of the poor, involves conflict. The reform of institutions, if seriously taken up as an objective by development agencies, will require these agencies to get enmeshed in the political struggles that result from the expected opposition of (parts of) the elite that do not wish to give up their privileges.

### **3. Structural Political Economy and the Politics of (Structural) Reform**

The structural political-economy perspective that is advocated here calls for a reorientation of the approach to governance reform. Nowhere is the implication of the reorientation clearer than in the approach to the politics of reform and the identification of reform coalitions. The approach does not start from the assumed objectives of particular elites, as is done in the Developmental Leadership Program, or from the possible counterweights that can be organised through civil society action, as assumed in the Demand for Good Governance programme. Rather, the starting point is the identification of sets of elites in relation to their position in the national structure of power. The assumption is that a useful way to determine power positions is by relating these to some sort of material basis – be it elites' ownership of capital, their access to natural resources or their command of the strong arms of the state. Existing governance arrangements work in the interests of the dominant power holders, while subordinate groups (the poor, indigenous and other minority groups, in many cases also women) are marginalised and generally fail to get access to the formal decision-making structures.

If governance reform is the purpose, then clearly reformers are the natural focus of any analysis. Several groups of reformers can be distinguished, as well as several forms of alliances between donor agencies and reformers. A major distinction is that between *dedicated* and *tactical* reformers. Dedicated reformers are those groups, from either the group of power holders or the marginalised sectors of society, that have a genuine interest in reform. Among those reformers there are *idealists*,

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<sup>23</sup> World Bank, 'What is Demand for Good Governance', <http://go.worldbank.org/7OgyRXOG50> (accessed 29 October 2014).

who believe in long-term goals of social change, and *pragmatists*, who do not only have similar long-term aims, but also consider the importance of achieving short-term improvements, even if that would require them to compromise on some of the longer-term objectives. Tactical reformers are in essence *opportunists*, who see that the forming of alliances with donors can bring them greater advantages than the support of the ruling groups. The long-term objectives of the opportunists are not so much a radical transformation of the existing social, economic and political order, but they have a short-term interest in some of the advantages that the alliance with the donors may offer them, either in terms of resources, political exposure or prestige.

The types of alliances depend on the nature of reform-oriented groups. Very likely, the likelihood of success of reforms sponsored by donors is influenced by the type of alliance that can be forged with reform-oriented groups, as well as by the weight that such groups can assemble for reform. The relation among types of reformers, types of alliances and likely outcomes is given schematically in table 1.

**Table 1: The politics of reform alliances**

Types of reformers	Types of alliance	Likely outcome
<i>Idealists</i> : interested in reform that advances long-term social change	Form dedicated alliances only with ideologically likeminded actors; likely to reject tactical alliances	Success to be expected only in case of ability to cause social revolution ( <i>Example</i> : Khomeini-type ‘mobilisation of the masses’)
<i>Pragmatists</i> : interested in long-term social change but also in short-term gains	Form both dedicated and tactical alliances	Success dependent on mobilisation of anti-regime forces. Likely to lead to intra-regime struggle for power, and possibly political instability ( <i>Example</i> : Democratisation in developing countries)
<i>Opportunists</i> : commitment is contingent and tactical, as interests are short-term and self-interested, and long-term goals are unrelated to reform agendas	Form tactical alliances	Change of rulers and rules rather than change of regime and constitution ( <i>Example</i> : Arab Spring in Egypt and Tunisia). Defection likely if reform is no longer seen as useful. Opportunities for improving the situation of marginalised groups

The main implication of the approach outlined is that outside forces are dependent on domestic alliances if they wish to influence the direction of any reform process. For donor agencies, this implies that they would need to take sides if they are truly interested in making an impact on governance reform. Thus, a strategic assessment of the power of reform alliances, as well as of anti-reform opposition alliances, is required.

Given that different types of reformers are likely to engage in different strategies for governance reform, the options for donor agencies that wish to support reform-oriented groups can be ranged on a continuum. On one side of the continuum is support to idealist reformers in a declaratory way and the provision of financial support for those reformers to organise. While such an approach will enable donors to keep their hands clean, the above assessment also indicates that the likelihood of such a strategy to install reforms is rather slim. On the opposite side of the continuum is the situation where donors are required to make dirty hands by siding with opportunist elites that have been occupying



roles in oppressive or highly corrupt regimes. Given the role of the opportunists in the national balance of power, the likelihood of achieving results is arguably greater – yet, such a strategy may be resisted because of the fallout on the reputation of those donor governments that side with representatives of regimes that are considered objectionable by their domestic constituencies. Case studies presented elsewhere illustrate that, in attempting to duck the issue, donors often end up failing to produce any concrete positive reforms for the poor and marginalised at all.<sup>24</sup>

The argument may be illustrated by focusing on the possible approach of donor agencies to the promotion of democratisation processes that are aspired by certain political groups or are actually underway in authoritarian developing countries. Democratisation, understood as the increasing influence of greater parts of the population on decision making, is likely to be resisted by the elites that are in control of an autocratic regime. The ruling elites, who control the main power resources (such as economic assets or control of security forces), will feel threatened in their power position as a result of the claims to greater influence by marginalised groups, particularly if the latter constitute the vast majority of the population. The role of the middle classes in most developing countries is still likely to be limited, though growing as a result of greater economic dynamism over the past decade. As a result, the potential for change resulting from mobilising the middle classes can be assumed to be relatively small.

A structural political-economy analysis may offer better tools than other approaches in helping uncover the dynamics involved in the democratisation process. Next to the reform-resisting ruling powers, several groups are likely to be identified with the help of the typology of reformers sketched above. Groups pressuring for democratisation because of ideological convictions belong to our category of idealists. They support fundamental, long-term democratic reforms and greater respect for political rights, aimed at providing more opportunities to the poor and marginalised for influencing the outcome of political processes. The pragmatists are those groups who are in favour of democratising the polity, but also value the introduction of short-term improvements in the life of the poorer parts of the population, brought about for instance through the adoption of certain redistributive social policies. Pragmatist reformers would be willing to support alliances that aim to get social policies adopted, they consider these as the best approach in the given situation. The opportunists are those parts of the ruling class, who have an interest in removing the clique that is in control of the state, but are not fundamentally concerned about democratising the political system. They may support reform, for instance aimed at the introduction of social policies or limited democracy, in order to weaken the grip to power of the incumbent autocrats.

Donor agencies interested in contributing to democratic reforms should aim to build alliances with those groups that are most likely to produce the desired outcome. Given the general weakness of the idealist reformers, supporting pro-democracy idealist groups may be morally comforting, but will often turn out to be politically ineffective. A different approach may, therefore, be required to install change in the political system of the developing country concerned. The building of an alliance with pragmatists, who are reform-minded, *and* opportunists may turn out to be the only way to create some sort of pro-poor political reform – even though such change may fall short of the original aims of democratisation. In the end, donors may have to get dirty hands in providing support to the opportunist elites, whose main objective is to replace the incumbents in power, in order to improve the plight of the poorest segments in a developing country. The balance of power between the pragmatists and opportunists will ultimately determine the extent of the reforms; external donor agencies will be able to exert only partial influence on the exact outcome of the reform process, and will need to acquiesce in their fairly limited role.

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<sup>24</sup> Hutchison et al. (2014), *op. cit.*, chapters 5-7.

#### 4. Putting Political Economy to Use or the Road to Nowhere?

Does structural political economy leave us without any hope as to governance reform in developing countries? While the approach outlined above does certainly give rise to a fair degree of scepticism, there is probably no need to be entirely negative about the leverage of donor agencies and see political-economy approaches as no more than a purely academic exercise.

The first lesson that can be learnt from a serious engagement with political-economy analysis is that development should not be understood rather naively as a process that will bring about improvement in the lives of all parts of a population over a relatively short time span. Although it is tempting to think about development in largely positive terms, everyone involved in the aid industry should recognise that development is a conflictual process of reordering economic and social relations. As such, development is not a conflict-free public good, but is inevitably political in nature.

Giving examples from the presently ‘developed’ countries, many people would be convinced of the benefits that development has brought in terms of the level of wealth, health and education. This should certainly not be denied, but the plight of ‘underclasses’ in those same societies indicates that the fruits of development do not automatically ‘trickle down’ to all individuals, and that exclusion mechanisms are still very powerful even in the most developed countries. The ‘discovery’ of the urban underclass of New Orleans after Hurricane Katrina hit the southern United States in 2005 brought home to many that not all US citizens had shared in the benefits of economic growth. Likewise, repeated reports on undocumented migrants in European countries indicate the presence of an underclass even in inclusive welfare states.<sup>25</sup> These examples are illustrative of the persistently political nature of development at all levels of economic progress.

The awareness that development must be conceived in outright political terms, necessitates the adoption of a political-economy perspective, which zooms in on the resources and instruments that people have, or lack, to obtain a fairer share of social wealth. Also, such political-economy analysis emphasises the various dimensions of governance reform that can be laid out. Using the frequently applied distinction among the ‘here and now’, the ‘rules of the game’ and the ‘structural factors’ that is chosen in various donor instruments for political-economy analysis, some lessons can be drawn for attempts to reform governance in developing countries.

The nature and extent of governance reform differs across the various political-economy layers. At the level of the ‘here and now’, reform relates to a change of leadership. The ‘rules of the game’ are related to a deeper layer of countries’ political economy and here governance reform would imply changes in the constitutional order. At the most fundamental political-economy layer, where the ‘structural factors’ are located, reform would address issues of distribution of resources, inequality, the adverse treatment and discrimination of parts of the population, et cetera. Moving from the ‘here and now’ towards the ‘structural factors’, the social impact of governance reform becomes more profound and obtains a more clearly political dimension (in the sense that it has an impact on ‘who gets what, when, how?’) – thus, the deeper the political-economy layer, the more conflictual governance reforms are likely to be.

On the basis of the argument above, the conclusion is donor agencies, despite their rhetorical commitment, generally shy away from getting involved in ‘deeper’ governance reform processes. The main reasons for their difficulty in engaging with politics derive from the incentive structure and the development-oriented outlook that characterise donor agencies. These donor agencies will likely use political-economy analysis mainly at the rhetorical level, and will apply the knowledge primarily for

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<sup>25</sup> E.g., Platform for International Cooperation on Undocumented Migrants (PICUM), ‘PICUM’s Main Concerns about the Fundamental Rights of Undocumented Migrants in Europe 2010’, <http://picum.org/picum.org/uploads/publication/Annual%20Concerns%202010%20EN.pdf> (accessed 29 October 2014).

preparing their staff working in aid-recipient countries. For them, political-economy analysis will not have a great impact on their policies vis-à-vis their partner countries. In terms of the title of this section, such donor agencies find themselves on the road to nowhere.

Donor agencies that are serious about the need for governance reform and wish to engage with the political marginalisation of the poor in developing countries may want to proceed on the road laid out by political-economy analysis, and actively apply the insights derived from this type of analysis. The concrete use of political-economy analysis has the capacity to make aid more effective as well as more directly beneficial to the poor. The discussion in earlier sections of this paper has pointed out that in many cases pro-poor policies require a critical attitude versus the ruling elite in developing countries, as their approaches tend to be quite harmful to the cause of poor and marginalised segments of the population.

A structural political-economy approach would guide donors in searching for reformers who are able and willing to engage seriously with pro-poor policies. Idealist reformers are probably the easiest to identify, but they are also the least influential among reform-oriented groups. Idealists will be found in certain civil-society organisations, and empowering such organisations may be a first strategy that donor agencies can adopt. Their activities would very likely be twofold. In the first place, civil-society groups would be engaged in advocacy for the cause of the poor and marginalised. The objective of supporting such groups would be to enhance awareness among larger parts of the population of the living conditions and limited access of the poor, in order to influence policy making in the longer run. In the second place, civil-society organisations would be recruited for the implementation of programmes and project aimed at the poorest parts of society.

Structural political economy would also provide development agencies with a better understanding of the location and the nature of opportunist groups, as well as the way to win them for the cause of pro-poor governance reform. Such opportunists may be tempted to engage in tactical alliances with donors if their short-term interests run parallel with those of the aid agencies. Such a situation may exist when a specific part of the elite notice that their engagement with the pro-poor policies of the donors will enhance their own political power base among the poor. This could be true, for instance, for elites originating from the part of a developing country where many of the poor are concentrated. Donors need to be aware of the tactical nature of alliances with opportunist reformers, and of the risk that the opportunist elites may rather easily shift allegiance away from the donor agencies if the alliance is no longer considered to be beneficial to them.

The relative ineffectiveness of dedicated alliances with idealists and the expected volatility of tactical alliances with opportunists indicate that the building of alliances with so-called pragmatist reformers is preferable. Unlike idealists, pragmatists are not only interested in fundamental reforms, but also in piecemeal changes into what they feel is the right direction. Different from opportunists, the engagement of pragmatist reformers with donors is not just tactical and self-serving. Pragmatists are very likely the prime mover for governance reform in developing countries. Political-economy analysis may help in identifying pragmatist groups in or associated with the elite who are supportive of the pro-poor governance reforms supported by donor agencies. As the pragmatists' agenda may conflict with the interests of other parts of the elite, who are primarily interested in maintaining the status quo and their own position in power, the engagement of donor agencies with the pragmatists may result in a struggle for power within the regime and, at least in the short run, increased political instability.

The outcome of the political struggle within the regime is not certain, and depends on the political resources that pro- and anti-reform groups manage to mobilise. It is likely that donor agencies will come to be seen as part of the political struggle, as they take sides with the pragmatists who push for governance reform. Committed donors, who see the battle against forms of patronage, nepotism and corruption as inherent to development, will need to be prepared to support the cause of the reform-

oriented pragmatists and risk a deterioration of relations with those at the helm of the state. When engaging with governance reform in developing countries, donor agencies may come under attack from domestic constituencies that wish to maintain 'good relations' with specific foreign regimes for strategic or commercial reasons. The need to navigate in rough waters both at home and abroad obviously requires that donor agencies can think and act politically, and persevere in their chosen strategies. The tendency of these agencies to minimise risks, as well as their relatively low place in the pecking order of foreign policy making, are not the best ingredients for the assertive pursuit of development strategies. For the reasons sketched in this paper, most of the aid industry seems to be on a road to nowhere as far as political-economy analysis is concerned, but hopefully some are able to change course and put political economy to good use.