Report

Politically smart support to economic development

DFID experiences

Edited and introduced by David Booth

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Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ

Tel. +44 (0) 20 7922 0300
Fax. +44 (0) 20 7922 0399
E-mail: info@odi.org.uk

www.odi.org
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Cover photo: Prefabrication yard, Nigeria. Credit: Christiano Zingale.

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Acronyms

ACET	African Center for Economic Transformation
ASI	Adam Smith International
CEO	Chief Executive Officer
CIG	Centre for Inclusive Growth
DCED	Donor Committee for Enterprise Development
DDD	Doing Development Differently
DFID	Department for International Development
FOSTER	Facility for Oil Sector Transparency
G4ED	Governance for Economic Development
GOSAC	Governance, Open Societies and Anti-Corruption Department
GRD	Growth and Resilience Department
IBN	Investment Board of Nepal
ICAI	Independent Commission for Aid Impact
NASA	National Aeronautics and Space Administration
NEITI	Nigeria Extractive Industries Transparency Initiative
NNPC	Nigerian National Petroleum Corporation
NOSDRA	National Oil Spill Detection and Response Agency
NRC	Natural Resource Charter
PDIA	Problem Driven Iterative Adaptation
PIB	Petroleum Industry Bill
PTA	Power Trade Agreement
SDC	Swiss Agency for Development Cooperation
SDN	Stakeholders Democracy Network
SRO	Senior Responsible Owner
UK	United Kingdom
UN	United Nations
UNCTAD	UN Conference on Trade and Development

The first oil well drilled in Nigeria by Shell. Credit: Rhys Thom

Summary

Supporting economic growth processes to become more inclusive and transformative is one of the most important uses of aid. But, since the principal barriers to progress in economic development are political, change initiatives need to be targeted and politically smart. Comprehensive governance reforms have a poor record of success, whereas politically smart, targeted initiatives are beginning to show real promise. This publication aims to stimulate further discussion and action in this field. It includes two case studies of initiatives funded by the UK Department for International Development (DFID) that have achieved promising results in recent years.

An opening contribution, by the editor, sets the scene with a fuller discussion, from an independent perspective, of why the two DFID experiences are significant. The case studies that follow were written by DFID authors as part of DFID's 'Governance for Economic Development' initiative. The publication concludes with further reflections by the editor, including recommendations on what else may need to happen to realise the considerable potential of a politically smart approach to economic development.

According to the introductory contribution, typical political patterns in developing countries affect the conditions for economic development in several negative ways. This is a reason for aid donors to get involved but also implies any support must be politically smart. That means admitting the limitations of comprehensive reform and recognising three kinds of uncertainty, arising from: 1) the lack of any robust general formulas for dealing with basic institutional challenges of economic development (the form versus function issue); 2) the unpredictability that is often a feature of the 'everyday politics' of reform; and 3) the additional challenge of intervening in a complex system, where some results cannot be known in advance. Adopting a flexible and adaptive programming approach is an essential first step. The initiatives supported by DFID in Nepal and Nigeria help illustrate what this means.

In Nepal, the DFID-funded Centre for Inclusive Growth (CIG; 2010-2015) has focused on the country's huge untapped hydropower potential. Developing this potential requires significant foreign investment. But political instability and other governance challenges have made attracting investors difficult. Vital potential deals have stalled and investors have walked away. The CIG programme seized the opportunity to build up a newly created Investment Board of Nepal (IBN) to help it broker and negotiate hydro deals. In late 2014, this approach helped get agreement on over $2 billion of new foreign direct investment in hydropower. Two major investments were agreed, either one of which would more than double Nepal's electricity production and generate large export revenues.

From a DFID perspective, this result illustrates the value of a flexible design, allowing programme resources to be responsive to emerging opportunities as the political winds change. It confirms the importance of working at arm's length from the issue by supporting national actors and organisations with the ability to find politically smart solutions to otherwise intractable problems. A balanced combination of trust and active oversight can make this model work, with high development payoffs, including contributions to institutional improvement that may not be achievable by more conventional means.

In Nigeria, the Facility for Oil Sector Transparency (FOSTER; 2010-2016) is a DFID-funded programme that promotes transparency and accountability in Nigeria's petroleum sector. It combines technical expertise with a deep understanding of the political economy of the sector to identify how and when to intervene. Long-term partnerships to strengthen institutions, laws and policies are pursued alongside more opportunistic short-term goals that take advantage of openings as and when they arise. Commitments to local ownership and building consensus among the government, private sector and civil society are at the heart of FOSTER's approach. This £14 million programme has helped recoup over £300 million of Nigeria's public funds, influenced major legislation and begun to tackle the problem of illegal gas flaring.

The FOSTER experience has important lessons for DFID. It shows it is possible to work on risky and politically sensitive issues, but that this may require taking a back seat and not taking credit for the results. By providing relevant and practical support to partners, rather than attempting to steer their operations, FOSTER enabled local actors to find effective ways of championing change, including by working with actors normally considered part of the problem. In such circumstances, a linear theory of change is not appropriate, as politically informed adaptations within an overall vision are the key to success. Tools such as logframes can still be used, but in ways that permit the necessary flexibility and learning.

The two DFID case studies permit an enriched discussion of several of the issues raised in the editor's introduction. His final contribution addresses what is new in the Nepal and Nigeria experiences, and what else needs

to happen to take forward the agenda of politically smart support to economic development.

In regard to what is new, these cases add to the evidence that systemic political obstacles can be tractable if a targeted and politically smart approach is adopted. They confirm that the highest feasible localisation of the front-line reform effort is likely to produce the best results. They illustrate how putting aside ambitious institutional-reform efforts in favour of a more targeted or problem-driven approach may prove more reliable even in terms of institutional transformation. Finally, the two initiatives were able to be politically smart by being both flexible and adaptive. In other types of country context, a different mix of flexibility (permitting opportunism) and adaptiveness (for learning-by-doing) may be required.

In considering what's next, the editor argues that flexible and adaptive programming, enabling politically smart, well localised, engagement, should be the default aid approach to a wide range of economic development issues. This will require a new emphasis on tackling governance and economic growth together, so that the connections between them (the political economy) come to the fore. In programming terms, a politically smart approach will be achieved most effectively in the DFID context (and in other contexts, with appropriate adjustments) under two conditions. First, there needs to be less reliance on encouraging senior advisors to take the risk of initiating innovative programmes without much additional support. Stronger guidance on suitable frameworks and monitoring systems can and should be provided. Second, a substantial effort is needed to extend the thinking from donor agencies to their contracted service providers, whose orientations influence significantly the final shape of programmes. These conclusions are summed up as priorities for four groups of actors, including implementing organisations.

Madgat power plant, Philippines. Credit: Statkraft

1 Getting smart about economic development and politics

David Booth

Facilitating more inclusive economic growth and kick-starting real economic transformation is one of the greatest remaining challenges of international development. Because of the way typical political patterns affect fundamental conditions for economic development, it is also one of the most difficult. This is a reason for aid donors to get involved but also means any support must be politically smart. According to the argument of this introductory contribution, that means admitting the limits of comprehensive governance reform and recognising three kinds of uncertainty, arising from: the form versus function issue in institutional design; the 'everyday politics' of reform; and the challenge of complexity. Adopting a flexible and adaptive programming approach is an essential first step. Two recent initiatives funded by the UK Department for International Development (DFID) help illustrate what this means.

1.1 Introduction

Almost without exception, today's poor countries need faster and more employment-intensive economic growth. While many have experienced extended periods of growth since the 1990s, a common pattern is jobless growth, where far too little is done to absorb an increasing supply of youthful labour. Most importantly, structural economic change – implying new industrial or agricultural activities that generate large numbers of increasingly productive jobs – has been notable by its absence (ACET, 2014; Dercon et al., 2014). The reasons for this state of affairs usually boil down to politics. They have to do with the incentives that political systems, and the priorities of political actors, transmit to potential investors and the public servants charged with promoting development at country level.

Development assistance agencies have an obligation to help in addressing this problem if they can. But finding effective ways of doing so has been a challenge, and a great deal of effort has been dissipated in poorly targeted reform plans that stand little chance of success. The need to start afresh has been apparent for some time. A convincing case has been made for more flexible and adaptive initiatives that are capable of steering around the political barriers and harnessing forces for change in a different way. Yet, until recently, there have been only a few good examples of how to do this. This section explains the nature of the challenge and introduces two case studies of DFID experience that point a way forward.

1.2 How politics matters for economic development

The feasibility of economic transformation – that is, productivity-enhancing and employment-generating structural change – has now been demonstrated in many different parts of the developing world. Taken as a whole, this experience does not point to a single pathway of institutional change (Chang, 2007; Rodrik, 2007; Root, 2013; Levy, 2014). Indeed, it underlines the importance of countries discovering pathways and methods that work in their context. It does, however, suggest a small number of governance-related conditions that need to be satisfied, by one means or another, if economic growth is to be sustained and then turned into real economic and social transformation. It is also clear that the way political power is acquired and exercised in the country invariably determines whether or not these conditions can be met.

Kunal Sen (2013, 2015) distinguishes three 'channels' through which politics typically influences the pace and pattern of economic growth. While not exhaustive, this framework helpfully draws attention to several crucial ways economic development challenges have to be considered inherently political.

Three channels

Sen's first channel is the willingness and ability of the state to make credible commitments to potential investors that their assets and profits will not be expropriated, by one means or another, at some point in the future. This need may be met through formal protection of property rights and other legally binding rules, including on taxation. As the experiences of China and Vietnam illustrate, however, it may also be met more informally, by agreements between political patrons and public or private entrepreneurs about the future distribution of the profits and rents arising from a venture.[1] In either case, the political commitment needs to cover a sufficiently extended period and to remain credible over the intervening years.

The second channel is about the provision of the public goods needed to make private enterprise profitable. This includes the investments in health and education required for the development of an employable labour force as well as the provision of sufficient transport and power infrastructure. By definition, public goods cannot be sufficiently provided by the private sector acting alone. According to international experience, a well-motivated and competent public service, at least in relevant pockets of effectiveness, is necessary for the supply of public goods to reach the necessary standard. Again, the politicians' time horizons are important, particularly where large-scale, slow-gestating infrastructure investments are concerned.

Coordination failures in investment decisions are the final channel Sen singles out. The investments required for economic transformation are highly interdependent. Poor timing of the processing or input supply investments needed to ensure the profitability of a new production process can be fatal. Consistently supportive trade, tax and credit policies are needed. Failure to subsidise the learning processes involved in introducing new technologies can inhibit or kill off ventures that have high spill-over benefits for the rest of the economy. Facilitation of coordination and learning processes typically calls for an appropriate form of public action. At the same time, dealing with these so-called 'market failures' typically calls for detailed knowledge and understanding of particular economic sectors. Therefore, much hinges on the ability of the political authorities to empower and protect public agencies with the right combination of professionalism and connectedness to particular groups of entrepreneurs.[2]

Dysfunctional politics

Each one of Sen's 'channels' is problematic in the typical poor developing country, for interconnected reasons. In summary, political stability is often bought in ways that prevent the state from making credible commitments, investing sufficiently in public goods or facilitating coordinated investments.

To begin with, in political and social systems that are fragmented on regional, religious or ethnic lines, civil peace may depend on a tacit agreement to distribute the resources to which state power gives access in a way that is acceptable to the different communities and their leaders. This will often not correspond to any concept of the general or public interest, let alone the ideal conditions for economic transformation, but may be a necessary first step (Kaplan, 2008). The basic insight here is that the challenge of economic development is intimately linked to the means by which violence is limited and thus to the long, slow process of building a minimally coherent and effective state (North et al., 2009; Hough and Grier, 2015).

Even after minimally coherent states are established (or, in modern jargon, 'fragility' is significantly reduced), politicians typically acquire power by distributing jobs and services to their followers and clients. Leaders distribute ministries and other public offices to members of a governing coalition as 'prebends' – that is, offices permitting the use of rents associated with natural resources or administrative monopolies for private enrichment or political finance (Joseph, 1987; van de Walle, 2005). This weakens whatever state capacity has been inherited or built up. The coming of multi-party politics helps less than many have hoped. Politics remains 'neopatrimonial' (van de Walle, 2001). Rather than impelling greater attention to the general interest, intense competition for access to patronage resources focuses electoral campaigns, voting and accountabilities on short-term, low-risk distributional issues (Keefer, 2007).

The combined effect – simplifying and ignoring the many partial exceptions – is that action to stimulate investor confidence, alleviate critical infrastructural constraints or meet obvious investment coordination challenges is, at best, postponed indefinitely. Neither politicians nor public bureaucracies are incentivised to address these issues in a serious way. The resulting uncertainties encourage local and international businesses to concentrate on rapid-turnover commercial and service activities rather than venture into fixed capital investments with positive spill-over effects or large-scale productive employment.

It may well be that, in the absence of some form of action to break into these kinds of vicious circle, some poor countries will achieve negligible economic development for the foreseeable future. This sobering thought is the context in which the role of external support has to be considered. Since governments often lack unequivocal commitment to economic development (whatever their rhetoric), there

1 See, among others, Xu (2011), Coase and Wang (2012) and Steer and Sen (2010).

2 This is a theme of both Evans (1995, 1998) on East Asia and Whitfield et al. (2015) on contemporary African experience at sector level.

is ample justification for development assistance to take a hand in the matter, as van de Walle (2005: 34) argues. But this applies only if external support can interact more productively with country systems than in the past: what sort of contribution can aid make?

1.3 The limits of comprehensive reform

In the 1990s, aid donors still believed in influencing country policies directly, by means of conditionality. The limited success of this approach (Killick, 1998; van de Walle, 2001) fuelled concern about 'governance'. If countries could make political leaders more accountable, enforce limits on corruption and increase the efficiency of their public services, this would generate coherent 'country-owned' policies for development, improve the business climate and usher in a revival of growth. This would need to be thoroughgoing and immediate. Without prompt and comprehensive attention to achieving good governance, a breakthrough in development would not be possible.

The mantra of good governance, understood in these broad and ambitious terms, is far from just a donor invention. It is seen as so self-evidently valid and important that it is now fundamental to the belief system of intellectuals and many ordinary citizens in developing countries. Donors, indeed, are often reproached for not being serious enough about combating bad governance in countries where they work. This in turn makes critical thought on the subject difficult, but smart support to economic development has to start from recognition of the limits of comprehensive governance reform, as Nicholas Waddell (2015a) argues.

The trouble with good governance

For many years, the good governance agenda rested largely on claims to be self-evidently true. However, research on the subject has become progressively more critical, influenced in part by the growing scale of spectacular development successes in Asia under regimes scoring low on conventional rankings for governance quality. As of today, the literature is consistently supportive of professional public administration as a factor in improved development results. But it is ambivalent at best about the standard panoply of democracy support, accountability, anti-corruption and citizen empowerment devices (Grindle, 2004; Meisel and Aoudia, 2008; Andrews, 2010; Sundaram and Chowdhury, 2012). The likely contribution of democracy, on any relevant definition, continues to be hotly disputed (Kelsall, 2014; Masaki and van de Walle, 2014; Rothstein and Tannenberg, 2015).

Lately, advocates of comprehensive governance reform have been obliged to lean less on the balance of the evidence on institutions and poverty-reducing growth (Evans and Ferguson, 2013a) and more on the research (2005) and best-selling book (2012) by Acemoglu and Robinson (Evans and Ferguson, 2013b). Although this works on an extremely broad historical canvas, it can be read as prescribing early adoption of 'inclusive' power arrangements and institutions by today's developing countries.

The good governance and inclusive institutions agenda suffer equally, however, from two fundamental flaws. First, as emphasised by Acemoglu and Robinson themselves, political systems change slowly unless subjected to a major external shock. They change most slowly when economic dynamism is lacking, so that there is little change in the social class and power structures that are the nutrient broth for patronage politics and predatory rent-seeking. Donor-led reform efforts based on the illusion that these structural underpinnings are unimportant, or can be wished away, tend to produce a particular kind of change. After absorbing substantial amounts of reformist effort, they lead to an impressive façade of transparency and accountability arrangements, behind which politics and business continue to be conducted as before (Andrews, 2013).

Second, it is not in fact necessary for institutions and power structures to change comprehensively for transformative change to take place. Acemoglu and Robinson's distinction between 'extractive' and inclusive regimes may serve well enough their particular 'compression of history' (Jerven, 2015: 68-73). But most political regimes since the 19th century that have presided over major economic breakthroughs for their country have simultaneously had both extractive and inclusive features.

Political settlements and pockets of effectiveness

Depending on the particular way the extractive and inclusive elements are combined – what Khan (1995, 2010) calls the 'political settlement' – selective improvements can stimulate changes leading to transformational outcomes. Even highly neopatrimonial political regimes can host substantial progress in either social or economic spheres or both, as illustrated by the cases of Bangladesh (Levy and Fukuyama, 2010; Levy, 2014), Indonesia under Suharto (Henley, 2015), the Philippines since the fall of Marcos (The Asia Foundation, 2011) and some past periods in the post-colonial history of Africa (Bates, 1989; Kelsall, 2013; Bates, 2014). In these and other cases, particular public agencies with the right level of political protection for professional management can have significant benefits in the absence of general improvements in governance (Leonard, 2010; Roll, 2014).

In short, systemic changes in governance are unlikely in the short and medium terms, but they may not be necessary from the perspective of getting economic development started. And improving economic performance is one of the keys to getting intrinsically desirable improvements in political governance in the slightly longer term.

There is certainly a need for headway to be made, step by step, in all of Sen's three channels through which politics can influence growth. For that reason, institutions of governance do matter. But, as Chang (2007) and Rodrik (2007) have most forcefully put it, the channels signal institutional functions that need to be fulfilled. The institutional forms that will perform them best or well enough in the context cannot be prescribed in general. Typically, too, a period of thoughtful experimentation is required before finding the optimal solution – the one that is feasible and effective in the context (Rodrik, 2010, 2014).

Starting afresh

These are among the basic insights that should inform current thinking about external support to economic development. Two requirements for a wise and realistic approach are immediately obvious. The external actor(s) needs to be acutely aware of where on the scale of minimally effective state-building a country is, if only to avoid doing harm by upsetting a fragile political settlement. And there needs to be a cool appraisal, as free as possible of wishful thinking, of the likely limits of generalised governance reform as a means of addressing the political blockages to inclusive growth.

A third, and only slightly less obvious, requirement is an ability to participate in a genuine way in the search for context-attuned solutions to the dysfunctional politics of economic development. We argue next that this is most likely to be achieved with the help of the ideas about flexible, politically smart and adaptive programming that have begun to be widely accepted in the wider field of development assistance (Faustino, 2012; Andrews et al., 2013; Pritchett et al., 2013; Booth and Unsworth, 2014; Burns and Worsley, 2015; Stasse et al., 2015; Tulloch, 2015; World Bank, 2015: Chapter 11).

1.4 Politically smart aid: flexible and adaptive

If what we have said so far is true, supporting the faster and more inclusive economic growth poor countries need should be a top priority for international development agencies. It is also clear this poses particular challenges. On the one hand, what needs to be done goes against the grain of country politics, at least in the sense of promoting actions political leaders are not normally willing or able to take. On the other hand, what needs to be done is unclear, in at least three senses.

Three kinds of uncertainty

First, it may not yet be clear which ways of enabling more inclusive growth are likely to work best in the context (the form versus function issue). Second, there may be considerable uncertainty about the 'everyday politics' – that is, the question of which powerful stakeholders may be prepared, under which conditions, to support or oppose, formally or informally, a given change in policy or procedures (Hudson et al., 2015). Third, the objective is to achieve a change within a complex system. In other words, the situation is of the type where the sheer number of interacting elements and likely feedback loops makes it impossible to predict in advance what the consequences of a given initiative will be (Harford, 2011; Ramalingam, 2013).

This kind of challenge has been historically very difficult for official donor agencies to address. Addressing development challenges without a preformed idea of pathways and modalities has been unappealing to senior managers and their political masters when aid budgets have been under attack. The 'blueprint' approach to programme design, in which the expected causal pathways from inputs to desired outcomes are mapped out in detail at the outset, provides a comforting – albeit often illusory – certainty. In the 2000s, the interpretation usually given to the theme of country ownership of development efforts placed the accent on more and better 'strategies'. Partnership in aid was understood as joint planning of programmes in detail. In UK aid, changes from around 2010 generated a raft of new guidance (e.g. DFID, 2011) that took the blueprint approach to a new level. New programmes were expected to specify at the outset not only the outputs they would deliver but the precise percentage by which the targeted outcomes would be realised year by year. It is only recently that the tide has begun to turn in this respect.

The unsuitability of the default donor approach for addressing many kinds of typical development problems has been powerfully documented, from time to time, over the past 35 years (e.g., Korten, 1980; Rondinelli, 1983; Therkildsen, 1988; Porter et al., 1991; Mosse et al., 1998). However, having gained some traction during the 1980s in the context of project management, the alternative of flexible and adaptive programming was swept aside in the 1990s. Although it remained relevant in the context of the emerging interest in sector-wide programmes and budget support, this was not generally perceived. Today, fortunately, there is a willingness to pick up again some of the old ideas and apply them more broadly in a new context (Booth, 2015b).

Adaptive working for economic development

Some of the new thinking and practice involves politically smart and adaptive or 'entrepreneurial' working on barriers to inclusive economic development. The string of striking successes achieved in the Philippines by indigenous reformers supported by The Asia Foundation, with official donor funding, is the most remarkable instance (The Asia

3 Including the particular formulations known as problem driven iterative adaptation (Andrews et al., 2013), developmental or rapid-cycle evaluation (Patton, 2011; Cody and Asher, n.d.), complexity-based programme design (DFID, 2013) and doing development differently (DDD, 2014).

Foundation, 2011; Booth, 2014; Faustino and Booth, 2014). Until recently, however, much of the advocacy around adaptive approaches[3] has arisen in the context of public service reform, basic public service delivery or local market development. The most widely cited experiences of non-standard programming in DFID are issue-based voice and accountability programmes (Derbyshire and Mwamba, 2013; Booth and Chambers, 2014; Booth and Unsworth, 2014).

Greater attention now needs to be placed on applying flexible and adaptive approaches to economic development. Kick-starting more inclusive and transformative forms of economic growth ought to be central to development assistance. There are signs that past neglect by donors of major transport, energy and production challenges is being corrected. There is greater recognition of the links between economic patterns and the achievement of poverty- and conflict-reduction objectives. Any good new ideas about how to achieve results more reliably in difficult contexts should therefore be applied as a matter of urgency to supporting economic development. The expertise in governance that has been built up inside some donor agencies has until now been applied in the main to programming concerns within the established 'governance agenda'. There could be a much greater emphasis on bringing governance skills and insights to bear on the political economy of specific economic development challenges (Waddell, 2015b).

The cases

For all these reasons, it is welcome that DFID experience now includes at least two good illustrations of the application of politically smart, adaptive working to major economic challenges in partner countries. It is also encouraging that DFID staff are willing and able to write frankly about these experiences for a wider audience, as they do in Sections 2 and 3 of this publication. The case studies were originally written up for DFID's internal purposes, as part of a 'Governance for Economic Development' initiative which is encouraging a more integrated approach to governance and economic development priorities and programming (Waddell, 2015b).

The two countries are Nepal and Nigeria. The particular initiatives in focus are the facilitation of a major investment in hydro-electric power generation (Nepal) and the recovery of illegally privatised oil revenues (Nigeria). In each case, the issue being addressed is fundamental to turning around a national economy that has failed to deliver inclusive development despite substantial natural and human resource endowments. In both cases, the supported interventions have produced noteworthy results. The authors underline that significant uncertainties remain, but they show that the programmes have made headway in areas that are vital to the prospects for accelerated development.

The key to what was achieved was flexible and adaptive programming. The funding was provided flexibly, in the sense that considerable room was allowed for the interventions to be scaled up or down and/or redirected in response to a changing structure of opportunities. The approach was also adaptive, meaning the front-line actors were encouraged to learn through trial and error what was likely to work best. Both features helped the actions taken to be politically smart.

Flexible working allowed unexpected opportunities to be seized and dead-ends to be quickly recognised. Adaptiveness gave the teams the space to discover through experience which of the possible avenues of advance would have the fewest unanticipated negative consequences and the best chance of realising the desired outcome. Importantly, DFID country staff were closely involved in monitoring and steering the programmes. Nevertheless, in important senses the aid was provided at arm's length. The front-line actors were official or independent organisations staffed in the main by nationals of the country. 'Branding' of the initiatives as aid-funded programmes was also kept to a minimum. This allowed the reform effort to draw discreetly on international expertise without inhibiting the search for partnerships and pathways of change that work, in the country context, for the country actors.

The remainder of this publication is dedicated to identifying the major features of these two programmes of support to economic development and reflecting on their possible implications for future programming by DFID and other agencies. In Sections 2 and 3, the DFID authors explain what the interventions achieved and how this came about. Section 4 returns to the broader themes discussed here, asking what exactly these DFID experiences show that could be generally applicable, what range of economic development issues might be approached in a similar way and what improvements in policies and decision-making processes in funding agencies may be needed to realise this potential.

2 Nepal: Hydropower and the politics of investment

Miguel Laric and Nicholas Waddell

Respectively, Economic Advisor, DFID-Nepal, and Governance Advisor in DFID's Growth and Resilience Department (GRD). This case study is part of DFID's wider 'Governance for Economic Development' (G4ED) workstream.

Constraints to economic growth and private sector investment often persist for political reasons. This requires us to work in more politically informed and flexible ways. Doing so is crucial for achieving economic development results. But there are few documented examples from DFID's programmes that clearly articulate what this approach looks like in practice – particularly ones that get to the heart of the political economy of specific economic sectors or growth constraints. This case study contributes towards addressing this gap. In Nepal, the DFID-funded Centre for Inclusive Growth (CIG) has focused on the country's huge untapped hydropower potential. Developing this potential requires significant foreign investment. But political instability and other governance challenges have made attracting investors difficult. Vital potential deals have stalled and investors have walked away. The CIG programme seized the opportunity to build up a newly created Investment Board of Nepal (IBN) to help it broker and negotiate hydro deals. In late 2014, this approach helped get agreement on over $2 billion of new foreign direct investment in hydropower.

2.1 Headline results

- Agreements on over $2 billion in foreign direct investment in hydropower finalised September-November 2014;
- India-Nepal Power Trade Agreement (PTA) signed September 2014;
- Deals for two 900 MW hydro-electric power plants – either of which would more than double Nepal's current electricity production capacity, generating major export revenues as well as boosting investor confidence;
- On completion, implying a 347% increase in the stock of foreign direct investment in Nepal;
- A rare example of cross-party and cross-institutional agreement on a politically sensitive economic development priority;
- With ongoing challenges to sustain progress and bring the investments to fruition.

2.2 The context and challenge

Nepal is a country of around 29 million located in the Himalaya, between India and China. It has challenging terrain, poor transport and energy infrastructure, and a weak economic policy environment. It is also highly dependent on the Indian economy, with which it has a huge trade deficit. The economy is propped up by remittances accounting for between a quarter and a third of gross domestic product. Industrial production has been stagnant for decades and over two thirds of the population depends on small-scale agriculture. The potential for economic transformation lies in tapping into the huge export markets of India, South Asia, China and beyond. But Nepal can do this only if it can reduce costs of production, for which improved energy and transport infrastructure is essential.

Massive hydropower infrastructure investments could be game-changing for Nepal's economy. Nepal has abundant water resources and an estimated exploitable hydropower potential of 43000 MW. But this is not being harnessed. Nepal's current installed capacity is only 746 MW. While the supply of Nepal's energy will be seasonal because of the monsoon, national demand and supply are inversely correlated with the pattern in India. Unrestricted and well-regulated energy trading with India would therefore enable uninterrupted supply.

In the past, investment deals that might have exploited this potential have stalled as a result of political infighting among fragmented elite interest groups. Political competition has privileged short-term concerns about capturing spoils for allies and supporters, rather than securing long-term investment with wider economic benefits. General mistrust of Indian influence and worries about India's domination of Nepal have been a further significant obstacle. Finally, Nepal has lacked the ability to understand and broker deals of sufficient quality to meet global investment norms and requirements – not least in terms of assigning risks and sharing them with developers. Large scale infrastructure projects are complex and require political will, regulatory competence and commercial expertise – all of which Nepal lacks.

2.3 The programme

The Centre for Inclusive Growth (CIG) was originally set up in 2010 as a £5.6 million technical assistance programme to tackle growth constraints associated with inadequate infrastructure, flawed macro-economic management and weak policy coherence. It was intended to work as a think-tank to inform economic policy making and also provide direct support to the Nepali government. But it soon became clear that a different approach was necessary. It was too difficult and slow to work with Nepal's institutions where personnel shift regularly, technical economic capacity is very low and performance management is non-existent. Politically aligned civil servants often focus on delivering benefits to their networks rather than providing an impartial public service.

In this environment, it was clear that taking a cross-cutting 'best practice' approach to policy reform was not going to gain traction. Instead, CIG's operating model shifted to focus on delivering practical 'projects' that would generate tangible benefits. This model sought to use the tangible results of the projects, and the momentum generated around them, to drive increased institutional capability. The hope was to incentivise officials to deliver in a way that would not have been possible through more general technical assistance and capacity-building.

The think-tank concept gave way to a programme dedicated primarily to supporting and brokering deals between multinational corporations, private investors and the government of Nepal with a view to developing large-scale hydropower generation. After several unsatisfactory attempts to work through ministries, the tipping point for this change happened with the establishment of a new government body, the Investment Board of Nepal (IBN). CIG immediately saw the potential for working with and shaping a credible, technically robust organisation with a degree of distance or insulation from negative institutional and political dynamics.

With this shift, CIG's theory of change became less concerned with producing good analysis and technical advice to improve policy. Instead, it became much more closely focused on delivering major infrastructure investments (hydropower) in a priority area for economic development.

Beyond the intrinsic importance of delivering the investments, CIG saw the opportunity to use the process of brokering the deals to build up the IBN and to motivate officials to improve decision-making. In this way, the deals represented a 'learning-by-doing' opportunity with the potential to have a broader positive demonstration effect relevant to other Nepali organisations and – more widely still – to the rules of the game surrounding private sector investment. The programme's reorientation was possible because CIG became one of the early DFID programmes to explicitly take a flexible approach in which locally driven and continuous political economy analysis was central – including for informing strategic engagement with the private sector.

Adam Smith International (ASI) implemented the programme through its office in Kathmandu, acting largely at arm's length from DFID and with limited branding.[4] CIG was delivered by a core of international advisors and administrative staff, expatriate Nepali consultants working directly for the IBN, and a subcontracted international legal firm. There was also a pool of funds for rapidly procuring specialist expertise to support the IBN in formulating and negotiating the deals.

2.4 The approach

A flexible design to adapt to emerging opportunities

The programme's logframe gave ample flexibility for learning and adaptation. Targets were set around delivering a number of 'policy projects' (e.g. delivering a project development agreement for mega-hydro or implementing a macroeconomic model in an economics ministry) without specifying up-front what specific projects and results would be delivered. The logframe changed significantly as the programme evolved. Close monitoring and constant communication between DFID and the contractor, ASI, were necessary to generate the trust and accountability required for the approach to work. The arrangement was not without its flaws. For example, programme milestones were dominated by process measures even though the contract was supposed to be output-based (payments were concentrated on 'project activities being carried out' rather than 'project implementation being completed').

4 One communication or messaging shortcoming, however, concerned CIG's shift away from being a think tank – spoilers would later try and capitalise on misunderstandings about CIG's primary function to try to undermine the IBN while the hydro negotiations were in full swing.

Responding to emerging opportunities to change the scale and scope of the programme

As explained above, the creation of the IBN provided a significant moment of opportunity for the programme. In 2011, in a bid to kick-start economic growth, Interim Prime Minister Baburam Bhattarai tabled a law to establish a body that could attract large-scale investment to Nepal, particularly in infrastructure. Nepal's Constituent Assembly, functioning as Parliament, subsequently passed the Investment Board Act, which created the IBN. The prime minister encouraged the CIG programme to help build up the IBN as a means of delivering long-stalled hydropower deals.

For DFID, procurement flexibility to scale up in response to this emerging opportunity was critical. The programme grew from £5.5 million to an eventual total value of £12.8 million. Strong help was received from DFID procurement colleagues, who showed extraordinary flexibility to process the necessary commercial amendments. They recognised that the programme's high risk was related to its potential for very high return and that failing to scale up would in itself be risky, given the high profile of the IBN and the political vulnerability surrounding it. A lack of DFID responsiveness would have inadvertently sent negative political signals to local stakeholders about the UK's commitment to and confidence in IBN, and about the prospects of delivering the deals.

Working politically and at arm's length to promote local ownership and agency

The IBN is chaired by the Nepali prime minister and its members include the ministers of finance, energy and transport. The secretariat is led by the IBN chief executive officer (CEO) – a high-profile, politically neutral private sector professional appointed by the prime minister. This structure gave CIG a ready-made platform to encourage political coherence and high-level decision-making, which is otherwise very difficult to achieve in Nepal's fractious political environment.

The high-quality, mostly expatriate, Nepali professionals working at the IBN on competitive private contract terms and funded by DFID were key to its success. They combined the professionalism and integrity from having worked and studied in developed countries, youthful energy and the cultural and language background to be able to engage effectively with local Nepali officials. Among them was a political economy expert who advised the CEO on engagement strategy and communication with Nepal's government bodies and political parties. This 'on-demand' political economy analysis helped the CEO understand the incentives and vested interests of the key participants to the negotiations, and where the room for influence existed for delivering broad agreement on the deals. This meant political economy analysis with direct operational relevance was being generated from within the IBN rather than by donors or external consultants. The analysis was applied and updated on an ongoing basis in the face of changing dynamics, rather than in the form of static, stand-alone reports. DFID also funded international legal and technical experts to advise on commercial negotiations and technical aspects of the deals.

In this sense, IBN's political economy work was continuous and mostly internal, and used to support IBN objectives. DFID did not play a direct role and was involved only when the IBN advised that external pressure would be beneficial. The approach included multiple personal and seminar-based consultations by the IBN CEO with political leaders, ministers and parliamentary groups, to provide information, answer questions, develop consensus and reduce hostility. For example, the CEO hosted key political leaders at a one-day retreat to take them through the principles underpinning the negotiations, explain the benefits for Nepal and address key misconceptions and reservations. Ministerial joint secretaries from finance and energy were part of the negotiating team, to ensure the IBN was fully integrated with government decision-making. To mitigate perceptions that the deals would be bad for Nepal and dominated by India, and to strengthen the government's negotiating position, the IBN was negotiating five different projects in parallel with different developers from different countries.

Bringing in politically impartial Nepali expatriates was necessary to insulate the IBN from excessive political interference and ensure high-quality technical input. DFID support allowed IBN to work as an arm's length, self-financing and self-sustaining Crown Corporation. However, there were no clauses in the IBN's legislation formalising its status in these terms. Efforts to insert such clauses remain contentious, given the government's preference for direct control but will be necessary to ensure the IBN's long term sustainability. By supporting its core operations and staffing, DFID has created a significant risk that the IBN and the government will not have the incentive to make the necessary legal changes to secure the IBN's sustainability. DFID is planning to manage this by linking future financing to legal changes that secure the IBN's status as a self-sustaining legal entity.

Putting the pieces in place to strike when the political winds change

Even with these structures and processes in place, there was no guarantee that deals would be signed. Ministries resented the IBN 'taking away' the most lucrative projects; misunderstandings persisted about the IBN's role; and the lack of capacity in government made it difficult to explain complex aspects of the deals, which fuelled mistrust between the IBN and ministries. Complex regional politics created suspicion about greater energy integration with India and the particular export-import energy trading model being proposed. This was compounded because one of the lead developers in the deal that was closest to agreement was an Indian firm.

With such fragmented politics and mistrust, even when a deal was ready to be agreed in principle, a formal agreement remained unlikely. All of this changed when Narendra Modi was elected Indian prime minister and visited Nepal. He improved bilateral relations and personally pushed for agreement on at least one of the deals. Nepal's political leaders responded by setting a deadline for finalising an agreement. But Nepal's challenging bureaucratic arrangements resurfaced when, as part of the finalisation plan, a new temporary cross-ministerial structure was announced to review and recommend a final agreement. This happened even though key government officials had been involved as negotiators in the deal agreed in principle and the prime minister and key ministers led all decision-making within the IBN.

This last minute 'extra hurdle' was partly indicative of the government's inability to push the deals through without a broader political consensus. It highlights how it can be difficult for fragmented elites to make credible commitments among themselves to pursue common long-term interests (a 'collective action' problem). The IBN's DFID-funded political economy work was important in overcoming this. It put Nepali professionals in a position to brief blockers and spoilers to address their objections, reduce their hostility, and frame the deals in terms of their wider interests and incentives.

The additional hurdle required a whole new round of consultation and relationship building by the IBN CEO and his team. But with the political push from Modi and his two visits to Nepal in the space of a few months, the first deal was finally agreed together with an India-Nepal Power Trade Agreement (PTA) in September 2014. A further agreement on a separate plant was signed in November 2014. The PTA was highly significant, as it gave investors confidence of having access to India's huge energy market. Without CIG's work to lay the foundations and then help overcome the last-minute hurdles, this opportunity could have easily been missed.

A balance of trust and scrutiny to monitor performance

DFID played a closely engaged management and oversight role but also left space for the programme to get on with implementation. Monthly meetings were held with the IBN and CIG teams, and frequent informal updates ensured DFID could track the pace of progress; challenge the contractor and the IBN team on performance when needed; and encourage the contractor to prioritise sustainability and the strengthening of the IBN's internal systems. The intention was to avoid micromanagement and exhaustive quarterly reporting, concentrating on ensuring resources were focused on delivering the main objectives.

All of this was possible because the DFID team trusted the technical quality of the contractor's and the IBN's staff and were able to test assumptions and approaches with these staff on a regular basis; and because our partners were relatively open and honest about progress. The programme could have been even stronger if the contractor had been more closely engaged in assessing political economy issues, using this proactively to advise on DFID's influencing role and to ensure entirely consistent on-the-ground programme management.

Using UK aid to assume high risks for major benefits

A significant dimension of the UK's role was to underwrite the political and commercial risks of getting the deals signed. Securing deals of this nature is hugely challenging and complex. Neither the government of Nepal, nor the private sector, nor most development partners, were willing to expose themselves to the risk of the deals unravelling.

The signed Project Development Agreements include regulatory provisions (on resettlement, land acquisition and energy, among others) that are needed to move ahead with the hydropower plants. They also protect the deals from future regulatory changes. In this way, the government of Nepal is recognising the value of regulatory capability and of building in future assurances for delivering large-scale investment. The agreement provides for financial penalties to either the developer or the government of Nepal worth millions of dollars should either side fail to meet its obligations or 'conditions precedent' during the two and a half year 'financial close' period. This sets up powerful incentives for the government to improve its regulatory competence or lose two $1 billion investments and millions of dollars in penalties for non-compliance.

2.5 The results

DFID support helped deliver two Project Development Agreements worth around $2 billion of long-term foreign direct investment. By comparison, the total stock of foreign investment in Nepal in 2013 was $514 million according to the UN Conference on Trade and Development (UNCTAD). Thus, on completion, the investments would imply a 347% increase in the stock of foreign direct investment in Nepal. The deals stand to provide electricity, lower production costs and generate both export revenues and inward investment. They could also create thousands of jobs and bring new technology and new skills for Nepal's workers and diverse opportunities to develop local supply markets. Nepal has never before negotiated complex infrastructure projects as a credible partner to a large international corporation, and it has never before managed to deliver a commercial agreement on a project of this size. The size of each project on its own would more than double Nepal's power generation capability.

DFID support has helped deliver rigorous models for structuring these deals in future, which should generate a pipeline of future deals at lower cost and of similar quality. It has also delivered one of the few examples of cross-party and cross-institutional agreement on a politically sensitive economic development priority – something that is hard to achieve in Nepal's political environment. The IBN and the size of the deals also provided an entry point to explore wider challenges around political and administrative consensus building. The deals signal that Nepal is starting to be open for business and that the government can 'get things done'. UK support is building a Nepali-run government organisation with the professionalism and probity to be respected by international investors. The IBN is increasingly recognised within government as a source of expertise and advice, with ministries starting seek help on other commercial infrastructure deals on an informal, low-key basis. At the same time, though, the IBN's sustainability remains uncertain while it continues under the financial and operational mandate of the Ministry of Finance.

There is a long way to go before the deals deliver the hard infrastructure to generate the promised benefits. It will be at least one more year before the financing is secured and at least another five years before the infrastructure is built. Along the way, a host of challenges will need to be managed carefully. These range from the need for effective implementation of the regulatory changes; on-going corruption risks; local social, environmental, political and conflict sensitivities in the areas most affected by the deals; and wider environmental and land-related challenges.

Despite the programme's best efforts, it is also inevitable that its results remain vulnerable to political developments. For example, as result of turbulent coalition politics, the position of the IBN CEO has come under threat. If a political appointee were to take over, this could undermine the IBN's standing and put its further development in jeopardy. It is also possible that Nepali politicians could attempt to unpick the deals, or major aspects of them, in ways that would unravel the progress to date and send damaging signals to investors more broadly. Comments to the press by the incoming Minister of Energy (Himalayan Times, 23 Nov 2015) show how real this possibility is. Such risks illustrate the precarious nature of progress in this field. They underline the need to remain flexible, creative and responsive to uncertain and evolving challenges. For example, a damage-limitation measure to preserve what has been built up at the IBN might be to reconfigure existing capabilities into a form of consultancy service to government.

2.6 Lessons

Five important lessons may be drawn from this experience in Nepal:

- *Brokering major investment is an inherently political process that requires DFID and implementing partners to think and work in politically informed ways.* A purely technical approach would not have delivered the results; nor would political economy input provided externally. The CIG programme generated political economy analysis as a matter of routine from within the organisation best placed to apply it directly to broker relationships and influence investment outcomes.
- *Project-led reform can be an effective approach to institutional strengthening, provided the 'project' is big enough to affect institutional incentives.* A project with a large tangible outcome concentrates minds on both the potential benefits from changing practices and the opportunities likely to be missed by doing nothing. This creates natural incentives for change, which can be a struggle for a programme purely supporting institutional reform. Sustaining progress remains a challenge, however.
- *High-risk/high-return programmes call for staying power. DFID should be willing to take high risks for the high payoffs that support to economic development can provide.* It should have the patience to operate unconventionally in ways others cannot. Luck – the contribution of unpredictable external events – plays a major role in delivering a positive result, and this should be explicitly recognised. To do this well requires clarity up-front about the downside risk; corporate cover to experiment and fail; and being bold enough to put and maintain major resources behind programmes that can be transformational, even if the hard results may come years further down the line.
- *Staying flexible permits opportunities to be seized and lessons to be taken on board.* The CIG programme was able to help deliver major hydro investment only because it evolved and adapted. It was able to seize emerging opportunities and deal quickly with setbacks. Maintaining a flexible model was crucial, making it possible to work on multiple fronts, to accept that not all initiatives would work and to drop the ones that didn't. Working closely with procurement colleagues can enable timely and significant scale-up.
- *Recognising the benefits of an 'arm's-length' approach also means carefully managing the drawbacks.* DFID was several steps removed from much of the most important work that went on inside the IBN. More prominent and visible DFID involvement would have been counter-productive. High levels of trust are essential to work through an implementing partner in this way while delivering difficult change. DFID needs to use multiple communication channels in this model, to triangulate and verify information and to support programme management in order to maintain oversight in the absence of direct control.

3 The spoils of oil: working politically on extractives in Nigeria

Jonathan Bhalla, Nicholas Waddell and Richard Ough

Respectively, DFID Growth and Resilience Department (GRD) and DFID-Nigeria. This case study is part of DFID's 'Governance for Economic Development' (G4ED) workstream.

DFID is increasingly recognising the importance of politically smart and locally led approaches to programming. But, as noted in presenting the Nepal experience, there are few examples that clearly articulate what this approach looks like when applied to economic development challenges and specific sectors or barriers. This Nigeria case study is a further contribution to filling this gap. The Facility for Oil Sector Transparency (FOSTER) is a DFID-funded programme that promotes transparency and accountability in Nigeria's petroleum sector. It combines technical expertise with a deep understanding of the political economy of the sector to identify how and when to intervene. Long-term partnerships to strengthen institutions, laws and policies are pursued alongside more opportunistic short-term goals that take advantage of openings as and when they arise. Commitments to local ownership and building consensus among the government, private sector and civil society are at the heart of FOSTER's approach. This £14 million programme has helped recoup over £300 million of Nigeria's public funds, influenced major legislation and begun to tackle the problem of illegal gas flaring.

3.1 Headline results

- Over £300 million of Nigeria's public revenues identified and recouped though support for forensic audits of the petroleum sector;
- A role in the development of oil and gas sector legislation – notably parts of the Petroleum Industry Bill (PIB) and legal amendments to strengthen the role and powers of the National Oil Spill Detection and Response Agency (NOSDRA);
- An innovative Gas Flare Tracker, which uses satellite data to create a visual map and database of how much gas is burned and where, its carbon dioxide content and its value in terms of fines that the Nigerian government should be levying (up to £690 million);
- A previously non-existent evidence base for policy-making and advocacy on gas flaring.

3.2 The context and challenge

Oil is the backbone of the Nigerian economy, with oil revenues providing over 90% of foreign exchange earnings and at least 70% of government revenues. But Nigeria's prized asset has delivered few tangible economic benefits, with the country succumbing to both the notorious Dutch Disease and systemic corruption. Predatory elite behaviour aimed at capturing oil rents has defined the character of the Nigerian state in three principal ways: weak ties between the government and society given that the government relies on lucrative rents rather than taxes for survival; systematic rigging, intimidation and violence used to win elections and maintain a grip on the oil sector; and hollow institutions that have little power or capacity to set policy, formulate laws or effectively regulate the sector. The capture of oil rents takes place across the entire value chain of the petroleum industry, including upstream (allocating oil blocks, awarding oil-lifting contracts and bunkering – direct theft of crude oil), midstream (natural gas) and downstream (importation of refined crude oil products such as petrol and kerosene).

A closed industry, tightly controlled by a small elite group, has repeatedly frustrated successive efforts to improve the governance of the oil sector so it can better contribute to economic and social development. The Petroleum Industry Bill (PIB), first initiated in 2007, seeks to restructure the oil and gas sector but is still awaiting approval by Parliament. The Nigeria Extractive Industries Transparency Initiative (NEITI) has generally been unable to cajole the government into taking action on its forensic audit reports that expose significant irregularities in oil sector revenue management. The Excess Crude Account, established under the Obasanjo government to provide a buffer between volatile commodity prices and the annual government budget, was drained from a high of $20 billion in 2008 to $2 billion in 2014.

3.3 The programme

FOSTER is a £14 million DFID-funded programme designed to promote greater transparency and accountability within Nigeria's oil and gas sector. Over 2010 to 2015, the programme has been implemented by a UK development consultancy firm, Oxford Policy Management, and is housed in its own offices in Nigeria's capital, Abuja. The majority-Nigerian team comprises technical experts on various stages of the oil and gas value chain as well as programme managers and policy and communications experts. FOSTER also draws on the skills and experience of a carefully selected group of senior sector experts and well-connected 'development entrepreneurs' (Faustino and Booth, 2014) for strategic direction and oversight. Specialist technical and programme management skills are provided through the service provider's UK head office.

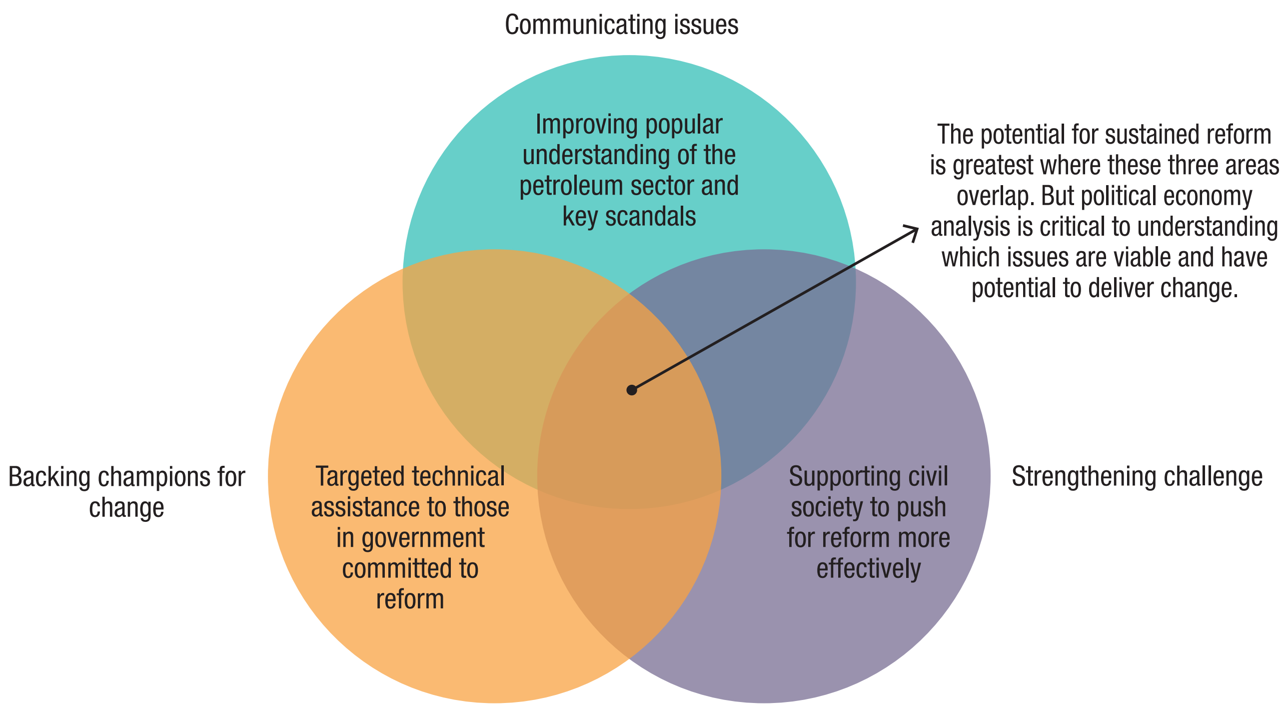
FOSTER works in partnership with the Nigerian government, civil society and the private sector to reduce opportunities for corruption or revenue mismanagement by improving the understanding of oil and gas sector issues in Nigeria; strengthening the capacity of civil society to challenge government and industry; and backing 'champions for change' within government. The ultimate aim is to make more effective use of Nigeria's natural resources. Promoting greater transparency and accountability in Nigeria's petroleum sector involves sometimes working with entrenched vested interests among elites and other times challenging those vested interests or pushing for them to be re-framed in less damaging ways. This inevitably involves a high level of risk, both for DFID and for the wider work of the UK government in Nigeria. However, given the magnitude of oil and gas revenues and their importance to the Nigerian economy, even small improvements in the sector can produce substantial economic benefits.

The programme has three output areas:

- Increase in extractive industries revenues identified (40%);
- Improved management and accountability of extractive industry resources (40%);
- Improved policy outcomes for local communities affected by natural resource extraction (20%).

FOSTER is premised on the belief that 'best practice' technical reforms are unlikely to alter the underling

Figure 1: FOSTER'S scope



political economy and incentive structures that prevent oil and gas from driving economic transformation and reducing poverty in Nigeria. Instead, the programme seeks to capitalise on and nurture appetite for reform, both within government and outside. It works opportunistically and strategically with government (supply side) and civil society (demand side) institutions and actors – often simultaneously and on specific issues – to improve oil-related laws, policies, institutions and oversight bodies. Figure 1 explains the programme's scope and Box 1 provides further details on its aims and methods.

Box 1: FOSTER's aims and methods

[FOSTER] aims to reduce the many incentives for misuse of power and capture of oil revenues in Nigeria. Abuse and malpractice in the oil and gas sector in Nigeria is well documented and deeply entrenched. Corruption distorts policy and politics and undermines the potential for revenues to be used to accelerate economic and social development. By seeking out different strands of commitment for reform, within government and outside, FOSTER provides organisations with an interest in improving governance with a mixture of direct technical assistance and arm's length support. By constantly scanning and analysing the political economy of oil in Nigeria, the FOSTER team seeks out and supports 'pockets of effectiveness' – identifying the key players and institutions that have the potential to catalyse change, and then supporting them in their pro-reform efforts.

Source: www.opml.co.uk/projects/facility-oil-sector-transparency-and-reform-nigeria-foster

3.4 The approach

From thinking politically to working differently

FOSTER epitomises many of the key strengths of flexible and adaptive programming – it is guided by nuanced understanding of the political environment while also being technically rigorous. The contacts and networks FOSTER has developed and nurtured – in government, the private sector and civil society – have been instrumental in its ability to respond at the right times to the right issues. The FOSTER offices are known in the oil industry as a safe and trusted place to discuss sensitive issues or brainstorm on strategy. By positioning itself as the go-to place to discuss oil and gas sector reform, FOSTER has carved out a privileged position at the heart of local debates on these issues in Nigeria.

The focus on what is politically and practically viable sits at the heart of FOSTER's approach. In its supply side work, the team makes politically informed calculations about which parts of government it can get traction with, and then works to build momentum and capacity around specific issues. This often means pursuing second- or third-best options. For example, rather than seeking to influence the Nigerian National Petroleum Corporation (NNPC), the state oil corporation and epicentre of Nigeria's controversial oil deals, FOSTER chose to build partnerships with other parts of government, including Parliament and the National Oil Spill Detection and Response Agency (NOSDRA).

Flexible working

One of the main reasons for FOSTER's effectiveness has been its flexibility to choose its partners. There is no obligation to support any organisation or institution in order to deliver on predefined or quantified outputs. For instance, when a dynamic new head of the petroleum sector regulator – the Department of Petroleum Resources of the Federal Ministry of Petroleum Resources – was appointed, FOSTER provided limited support to organisational development with a view to making the oil block allocation process more transparent. After nine months, it became clear the agency was not able to deliver more transparent allocation rounds. As a result, FOSTER's support was quickly (although sensitively) phased out, and the programme refocused on working with the Nigerian parliament to get transparency provisions into new industry legislation, and build demand for reform outside of government.

Programme activities are also amenable to change. The team constantly scans the political environment to identify emerging appetite for reform. Only then does it assess what contribution it can realistically make. This enables FOSTER to target a set of timely and politically feasible issues that there is genuine local appetite to address. While FOSTER pursues a number of long-term partnerships, such as with NEITI, a good number of the activities it supports are reactive and cannot be foreseen in annual work-plans or linear programme models. For example, when high profile controversies have arisen over questionable oil deals, FOSTER has quickly responded with targeted assistance to local civil society groups, which has generated public interest and challenge.

Commitment to local ownership and agency

FOSTER initiates and supports debate at arm's length rather than taking a front seat and pushing an agenda. The programme deliberately keeps a low profile, and does not seek to promote itself through its partners. Many actors and organisations in the petroleum sector were not aware of the relationship between FOSTER and DFID. FOSTER's role had to be acknowledged when partner organisations were asked to disclose their funding sources. But the overall discreetness of FOSTER's approach enabled it to engage with government and industry professionals who would normally be sceptical about collaborating with outsiders. Box 2 illustrates the relationship with partners.

FOSTER focuses energies on bringing local actors together around specific problems and empowering them to take the lead on how to address them. Direct technical assistance is designed to build the capacity of local partners to take initiative and drive campaign or reform initiatives. For example, FOSTER facilitated the Nigerian launch of the Natural Resource Charter (NRC), whereby an eminent group of Nigerians from industry came together with civil society groups and former political appointees to assess Nigeria's performance on natural resource management. Grants were awarded to local think-tanks and non-governmental organisations to help address evidence gaps. This was combined with technical support to the secretariat of the NRC, including direct 'hand-holding' to get the group off to a strong start. The sustainability of the approach remains a challenge, with no obvious alternative funding source that does not potentially jeopardise the independence of the NRC group. But the approach has provided momentum and kept locally driven pressure for industry reform alive during a challenging period for natural resource management in Nigeria.

Some of FOSTER's most impressive achievements arose from the programme facilitating collaboration between and across groups that rarely interact with one another. By building relationships between the government, civil society and private sector – at local, national and international levels – the FOSTER programme identified issues where there are overlapping incentives for reform.

The widespread practice of gas flaring is an example. Local communities in the Niger Delta had experienced first-hand the environmental consequences of this practice. The Stakeholders Democracy Network (SDN), a local NGO, had campaigned for years about the negligence of government and industry towards gas flaring. NOSDRA, a marginalised government agency, was conscious of the value of fines the Nigerian government should be levying and what gas could contribute to Nigeria's unmet energy needs. The challenge for FOSTER was to bring these three actors together to agree objectives and a strategy for action.

SDN had trusted relationships with local communities in the Niger Delta and individuals concerned with environmental damage. It also had good ties with major oil companies. With the help of data from an old satellite of the US National Aeronautics and Space Administration (NASA), FOSTER supported the development of the Gas Flare Tracker: a visual map and database holding details of how much gas is burned and where, its carbon dioxide content and its potential value in terms of fines and energy (Bloomberg, 2014). This tool provided NOSDRA with the evidence base to challenge the key oil and gas ministry and related agencies.

Box 2: Feedback from FOSTER's partners

FOSTER worked in the background. It played a linking role, brought in evidence and space for discussion. FOSTER didn't make itself the engine of the change. Otherwise people can say 'Who are you anyway?' and that is not good. We must be seen to be the ones pushing for it, not FOSTER.

- A whole lot was achieved not only because of the content but also because of how we positioned the agenda and the messaging we used.
- They have expertise at their fingertips, either in-house or through bringing in others and they can mobilise this quickly.
- FOSTER's contribution helped fire up people's awareness and demystify complex issues but also crucially sparked their passion and commitment.
- The focus on win-wins helped soften the position of potential spoilers on areas it was more sceptical about.
- Following FOSTER's training, I was more confident to stand my ground with editors, as I had the facts behind me.

Building effective coalitions

One of FOSTER's central strategies has been to promote workable, rather than adversarial, relationships between the government and civil society, which have a long history of treating one another with suspicion. The work to support the passage of the Petroleum Industry Bill (PIB) illustrates this inclusive approach. After FOSTER worked hard with the Ministry of Finance to refine the PIB and increase the provisions meeting global industry standards from 10% to 60%, the bill was then passed to the legislature. Fully aware of the lack of technical capacity within both houses of Parliament, and a poor track record of legislative debate on this subject, FOSTER moved quickly to identify reform-minded parliamentarians to strengthen the remaining 40% of the bill.

It framed the reform agenda as an opportunity to define one of the most significant pieces of legislation in Nigeria's history. By taking the time to unbundle and simplify the bill over a five week period, a seven-person technical committee of Parliament was able to present a vision for a revised PIB over which they had genuine ownership. FOSTER also used this opportunity as an entry point to build bridges between the legislature and civil society by arranging for the latter to deliver training and capacity building initiatives. This in turn increased pressure on the executive for reform.

Programme management and oversight

DFID's oversight of FOSTER came with its own particular challenges and required close engagement from both the programme's senior responsible owner (SRO) and the head of office. Fine judgements were needed, for example, on when a particular reform push would benefit from direct engagement by the UK government and when it was better to leave the programme quietly to facilitate Nigerian voices to make the case. Working across UK government was critical – not least in terms of benefiting from diverse information and expertise, including from law enforcement agencies. Staffing continuity was also important, given the programme's sensitive nature. One advisor has managed the programme throughout.

Managing risk can also prove challenging. While risk around 'duty of care' towards programme staff can largely be out-sourced to the service provider, many of the reputational risks for the UK government cannot. A blunt report by the service provider on a controversial area can easily be cited publicly as a UK government view, with the risks of damaging bilateral relationships and/or attracting negative UK publicity. Good information management, a trusted team and a careful approach to programme branding have been crucial.

3.5 The results

FOSTER defines and measures its results in both quantitative and qualitative terms. At impact level, the logframe aims at improvements in terms of NRC scores and the Resource Governance Index. At outcome level, the main indicator is the monetary value of additional natural resource revenues that the programme helps realise. The output indicators, however, speak more to the types of institutional changes needed to improve management of Nigeria's oil revenues and how to use these to benefit local communities. The focus here is predominantly on the adoption of new policy recommendations and improved systems and processes.

A challenge for FOSTER is to deliver a programme that can be measured within the confines of a logframe, but that is also dynamic enough to respond quickly and appropriately to changing circumstances. This was not always successful, and at times it has been difficult to ensure that activities clearly map across to specific logframe outputs. Nevertheless, an important lesson from FOSTER is that it is possible to deliver a flexible and adaptive programme that meets DFID's corporate requirements.

3.6 Lessons

Important lessons may be drawn from this experience in Nigeria under seven headings:

- *Managing risk:* It is possible to work on risky and politically sensitive issues, but this may require taking the back seat and not receiving due recognition when investments pay off. FOSTER works behind the scenes to help local actors champion change and push for reform. An important factor in empowering DFID advisors to take such risks is the backing and support from their senior management, notably the head of the country office.
- *Supporting partners:* FOSTER did not tell its partners how they should operate or what they should focus on. Instead, support was designed to address their immediate challenges. This demand-driven approach enabled FOSTER to offer relevant and practical support that addressed the needs of partners, which in turn the programme was able to use as an entry point to influence stakeholders.
- *Building partnerships:* FOSTER is flexible and open-minded about with whom it partners and how. It recognises that agents for change are often insiders usually regarded as part of the problem. These insiders are often people who can pave the way for reform or make the connections that are key to success.
- *Theory of change:* In highly contested and politically sensitive sectors, a linear theory of change is of limited use. More important is to develop a shared vision for what the sector could look like, and then work in a politically-informed way with local actors to achieve this objective.
- *Long-term versus short-term goals:* There are sometimes difficult trade-offs between efforts to strengthen institutions and build accountability in the long term and more opportunistic activities in the short term. Being alive to changes in the political economy is vital, but there needs to be a clear set of core objectives that underpins and defines the programme and creates the appetite to draw lessons from it.
- *Outside support:* The programme benefited from consistent engagement with a team of DFID central policy advisors in the UK. The same set of advisors assisted with annual reviews, made links to centrally managed programmes and fed in the latest policy thinking. This provided a sounding board for ideas and an arm's length perspective. It also means there is strong institutional memory at the centre about the programme.
- *Logframes:* There are challenges associated with running a flexible programme within the confines of a logframe. But it is possible, and does not necessitate constant logframe changes to capture every new programme activity area. Most important is to maintain a clear line of sight to the programme's intended outcome and impact. At the same time, if the logframe is not periodically updated, then assessing progress at annual reviews and holding implementing partners accountable is more challenging.

4 What's new and what's next?

David Booth

The case studies presented in this publication permit an enriched discussion of several of the themes of Section 1. This final contribution expands on four topics: the room for manoeuvre in the politics of economic development; the locus of reform effort; transformational change; and the difference between being flexible and being adaptive. It then argues that flexible and adaptive programming, enabling politically smart engagement, should be the default aid approach to a wide range of economic development issues, and that this will be achieved most effectively with stronger guidance than currently exists on programme structure and monitoring and with a substantial effort to extend the thinking from donors to contracted service providers. The section concludes with four recommendations for adoption by funding and implementing organisations.

4.1 Introduction

The case studies in Sections 2 and 3 of this publication provide an excellent platform for further reflection on the potential for donor support to economic development to become smarter and more effective. The similarities and differences between the two experiences help clarify the core features of a politically smart approach. Together, the two cases add credibility to some of the broad propositions Section 1 advanced about how best to engage with the politics of economic development. As this section argues, they also provide evidence with which to deepen parts of that discussion. They allow us to explore further the range of growth and transformation challenges to which a smart approach might usefully be applied. Finally, they point to a number of outstanding issues, in donor agency policies and programme management, that need to be resolved if the potential of the approach is to be more fully realised. On all of these points, we conclude, there are grounds for some firm recommendations to DFID and the wider community of development funding agencies and service providers.

4.2 What's new? The approach further defined

The case studies of the CIG and FOSTER initiatives in Sections 2 and 3 do a good job of explaining the fundamentals of their approach and why it is effective. In at least four areas, they also provide evidence to extend the overview discussion in Section1: the nature of the room for manoeuvre in economic development; where politically informed reform effort should be located; the question of transformative institutional change; and the relationship between flexibility, adaptiveness and politically smart intervention. We touch on each before considering the forward agenda.

Room for manoeuvre in the politics of development

Typical barriers to inclusive growth and transformation in poor developing countries are not only political but also systemic. That is, they are part of a system of interlocking and mutually reinforcing incentives for economic and political actors. These mechanisms have much to do with the stage of socioeconomic development and state-building that has been reached. They are not likely to be self-correcting except in the very long term – which is a reason for international agencies with a poverty reduction mission to get involved. The fact that the incentive pattern is systemic explains why comprehensive 'governance reforms' tend not to make a real difference. On the other hand, systemic does not mean incapable of change, if efforts are sufficiently well targeted and politically astute.

Powerful interests vested in the status quo are one type of obstacle to changing patterns of growth and stagnation. Nigeria is the classic instance, where overwhelming economic and political power continues to be exercised by a relatively small group whose wealth has been built on various forms of disguised or undisguised diversion of public resources. In this context, privatised natural resource incomes can be used to buy political support for protected market positions, which generate further rents at the expense of consumers and of possibilities for economic diversification and transformation (Lewis and Watts, 2015). The power to resist change is apparently immense.

Another type of systemic problem arises from elite fragmentation and the inability of political and civic groups with different origins, loyalties and followings to make common cause despite a shared interest in changing the status quo. The discussion in the Nepal case study of the difficulty of obtaining a sufficient consensus around hydropower investments is a good illustration. In this instance, the problem is systemic in the sense that Nepal does not yet have sufficiently robust institutions that enable this kind of coordination or collective action problem to be routinely overcome.

Coordination and collective action problems are in principle solvable, and there is a large literature on the conditions under which this can happen (Sandler, 1992; Olson, 2000; Ostrom, 2005; Ferguson, 2013). The Nepal case study illustrates some of the mechanisms – including building trust and re-jigging incentives – that a semi-independent broker can deploy. Less explicitly, the FOSTER case study suggests there is potential for brokering a solution to coordination and collective action challenges in the public management of Nigeria's oil sector. There are hints, also, that, through the effects of better coordination or otherwise, individual players normally regarded as part of the problem can be brought around. They can be persuaded to perceive their interests in a different way.

In short, there is unsuspected room for manoeuvre when the resources of an international agency are brought to bear in an intelligent way. Even the apparently hyper-intractable cycles of large-scale rent accumulation in Nigeria may turn out to be more susceptible to nudging in new directions than would have been guessed. Rich business people who have made their wealth one way are not necessarily uninterested in making more wealth in a different way, if the opportunity is revealed to them. In this as in other reform contexts, economic ideas matter, if only because they shape perceptions of self-interest (Rodrik, 2014). On a modest scale, some of the successes of DFID-supported interventions in Nigeria's agriculture sector suggest the hypothesis that behaviour change of this sort is feasible, with substantial benefits for patterns of growth (Bester et al., 2011).

Of course, none of this is certain. We are dealing with complex systems, meaning that, by definition, it is impossible to know in advance which players will jump which way and how their decisions will influence what yet others will do. Complexity is Janus-faced, however. When problems are both systemic and complex, they may not be beyond the reach of really smart intervention.

Political economy analysis and the locus of reform

Smart intervention requires both an understanding of systems and access to detailed and regularly updated information on organisations and individual actors, including their personal backgrounds, preferences and motivations. Sometimes, the ability to resolve a coordination or collective action logjam can depend on turning around an individual. This is illustrated by many examples in the earlier-cited studies of economic reform in the Philippines. The Nigeria and Nepal case studies add weight to the hypothesis that, for these reasons, capacities for political economy analysis and 'everyday political analysis' (Hudson et al., 2015) need to be located as close as possible to the front line of the reform effort. In Nepal, the necessary political information-gathering was part of the daily work of the Nepali and Nepali expatriate professionals placed in the IBN. The majority-Nigerian FOSTER team in Abuja was both the generator and the user of the required insights into the workings of the sector.

There is some justified debate about whether the phrase 'local leadership', used in presenting a previous set of case studies (Booth and Unsworth, 2014), is the right one for conveying this point. In the former context, we were struck by the value of using aid to support the reform activities of organised groups with their own identity and ambitions, rather than creating new vehicles of arm's length intervention, as in the cases considered here. In the Philippines studies, also, 'indigenous reformers' are seen as having a better chance of success because they are able to obtain fine-grained information and then mobilise means of influence that are inaccessible to foreigners, and possibly also to expatriate nationals (Booth, 2014). On the other hand, those designing programmes may not have the luxury of choosing reform leadership options that are fully 'local' in these senses. The general rule may be that a high level of localisation is optimal if it is practical, but that, in any case, the gathering and using of political intelligence should be continuous and located at the front line of the intervention.

Importantly, the case studies warn against taking this argument too far. The DFID advisors supervising the programmes needed access to well-triangulated information in order to perform their guidance and challenge functions. FOSTER was assisted by having had the same designated manager in the DFID office throughout the period – meaning it was possible to avoid typical problems of discontinuous staffing and short institutional memories. In the Nepal case study, there is an indication that the office of the service provider managing the programme delegated too much and could have been more on top of the shifting political-economic context than it was.

Problem-solving as a route to institutional transformation

Some development professionals express concern about the potential narrowness of 'problem-driven' approaches, where the objective is a 'tangible' outcome such as better channelling of oil revenues or securing a particular investment deal. They are concerned that, in this approach, transformative institutional change is delayed indefinitely. The assumptions about typical sequences of change underlying this concern tend to be shaky, for the reasons Section 1 discussed (see also Booth, 2015a). However, the case studies suggest another kind of response to it, in the form of an additional hypothesis about the potential gains from focusing on tangible outcomes.

The authors of the Nepal case study make the argument. Finding a viable route to solving a major development problem such as the hydropower investment deficit has a demonstration effect. It invites emulation. It generates incentives for improvements in public management that are more powerful than across-the-board public service reforms.

Why politically smart means flexible and adaptive

The case studies help illustrate why politically smart support to economic development is associated with not one but two further features: flexibility and adaptiveness. The authors do not labour the distinction between these two terms, and for many practical purposes it may be convenient to bracket them together. However, from the point of view of extending the approach to new contexts, the difference matters. Flexibility of programme design (and hence of funding) matters particularly where the context is highly fluid and there are substantial gains to be had from opportunistic interventions. Adaptiveness applies whenever the context is complex, meaning that trial and error is the only valid route to the desired outcome.

Being politically smart involves, among other things, being able to respond quickly to new opportunities or to signs that windows of possible change are closing. In Nepal, the prime minister's initiative creating the IBN and the Indian prime minister's visits to the country are good examples of the former. In Nigeria, the experience with the oil sector regulatory agency exemplifies the latter. In 2015, as DFID was inviting proposals for a successor to FOSTER, there were signs that the NNPC, previously treated as the centre of mismanagement in the sector, might be opening for business in a new way under President Buhari. The ability to be strategically opportunistic in a donor-funded initiative is a function of its flexibility, meaning its ability to scale expenditure up and down and to move funds rapidly between activities and intermediate objectives (or outputs, in logframe language).

In most poor developing countries, changes in leadership of ministries, departments and agencies are often frequent and alter the parameters of reform. However, the sharpness of the need for flexibility to respond to changes of this sort is variable. The need for programming to be adaptive is more constant. It is a response to the first and the last of the three forms of uncertainty Section 1 discussed. In the first place, there is no international experience that tells us what will work best, in the context, to provide the particular support to the growth process the programme has targeted. This needs to be discovered. In the second place, we are dealing with a complex system. Even if we knew in advance what the right solution was, we would not know how to make it happen. For these reasons, all support to economic development seems likely to require an adaptive or learning process approach.

4.3 What's next? Issues and challenges

It bears repeating that the evidence base regarding the success of the approach described here is still thin. A more systematic consideration of the whole body of relevant experience, including studies of less successful cases, will be needed. However, many of the early lessons of the Nepal and Nigeria initiatives are relevant to a range of inclusive growth and transformation challenges in poor countries, large and small, across the developing world.

To begin with, some elements of the FOSTER experience could be picked up, or picked up more widely, in the now numerous African countries where the management of natural resource revenues in the public interest is a top issue. Other elements might be useful in addressing the revenue side of economic development more broadly, including in Nepal. The Nepal experience in facilitating investments that alleviate critical infrastructure bottlenecks is certainly relevant to many other settings, including Nigeria, even if the specific constraints and actors will be different. The range of other potential applications is very large indeed.

Extending the range of applications

In Section 1, we drew on Kunal Sen's summary of the three channels through which politics has the potential to hinder or help the pace and pattern of economic growth. It is hard to see why any of these – the credibility of commitments to investors, provision of sufficient public goods and coordination of investments – should not be approached in the manner the case studies suggest.

Adaptive programming has made some inroads in recent years in the form of joint donor initiatives for more agile support to private sector and market development. Frameworks such as Making Markets Work for the Poor (DFID and SDC, 2008) and the outputs of the Donor Committee for Enterprise Development (DCED, 2015) point in the direction of a disciplined learning-by-doing. However, applications of these approaches have in some cases been stronger on addressing technical market failures than on dealing with political and governance problems (e.g. Booth and Golooba-Mutebi, 2015). They may also not be applicable to the higher-level interventions needed to shift overall patterns of investment and growth as opposed to the functioning of specific markets.

Of course, external support to economic development does not always involve tackling the most difficult institutional challenges. Some large loan-funded infrastructure projects, and the provision of new technologies as global public goods, may be able to be delivered without significant contact with country-level organisations. Also, not all international development agencies are able or equipped to address the institutional challenges described here by becoming politically smarter. With those qualifications, however, flexible and adaptive programming should probably become the default donor approach to all of the challenges identified in a country economic growth diagnostic or equivalent analysis.

In the absence of arguments to the contrary, this should include better investment promotion and government–business collaboration for economic transformation. It should encompass the big transport and power bottlenecks that are fundamental constraints even in countries that are otherwise welcoming to private investment. The problems of poor policy and investment coordination that hold back both agriculture and manufacturing, and thus employment-intensive growth, almost everywhere are obvious candidates too. By default, economic and private-sector advisors proposing new programmes should be invited to explain how political economy factors have been taken into account and why a flexible and adaptive approach is not required.

Making it happen

It is vital, however, that this does not become simply a concession to a new fad, without structured back-up. To realise the promise of smart support to economic development, several further things need to happen. The case studies contain some pointers in these respects. The illustrations given are rather specific to the DFID context, where relevant change processes are under way. However, they imply more generally applicable guidelines for funders and implementers of support to economic development.

Three issues need attention:

- Avoiding overreliance on individual risk-takers;
- Ensuring adaptive working is sufficiently structured; and
- Getting uptake by service providers.

Leaving less to chance

An earlier trawl of innovative DFID programming (Booth and Unsworth, 2014) found its success owed a good deal to the influence of outstandingly experienced and committed professionals. Behind successful programmes were individuals who were prepared to take the risk of sponsoring a venture with strong elements of learning-by-doing and who stayed in post long enough to follow this through. A good deal of anecdotal information, including from DFID's Nepal and Nigeria programmes, supports this generalisation. Advisors with both the necessary vision and strong backing from the head of a country office are consistently part of the story of the most innovative DFID initiatives. The question arising is how far it is realistic and wise to rely on this type of factor going forward.

Currently in DFID, such questions involve inevitable reference to the recently adopted Smart Rules (DFID, 2015). The result of an extended review of the department's procedures for planning and quality control, the Smart Rules are seen as releasing the potential for innovation in two ways. One is by making clear that DFID's corporate requirements concerning programme design – those that are fully mandatory – are quite limited in number. The other is by giving both higher levels of discretion and greater and more enduring responsibilities to the individuals commissioning programmes, the SROs mentioned in the case studies.

Those advocating more flexible and adaptive working generally view these changes in a positive light by (ICAI, 2014; Wingfield and Vowles, 2014). Corporately, DFID has explicitly recognised the importance of flexible and adaptive programming for its operations. At the same time, at present the Smart Rules and associated guidance are helpfully permissive, rather than directive in a new way. They leave a good deal to chance.

The immediate effect is to give greater scope to advisors who wish to initiate flexible and adaptive programmes. Talented and committed development professionals are not lacking in DFID, and it may be that this will continue to work in favour of the right sort of innovation. However, frequent turnover of advisory staff in country offices is a generally acknowledged problem. Continuous supervision of a programme by the same SRO and head of office over five years cannot usually be taken for granted. As a result, a typical five-year programme will be overseen by at least two advisors. The Smart Rules have strengthened somewhat the on-going responsibility of SROs for programmes they have initiated after they move on to a new post. But it is not clear that this will take away the need to institutionalise the steering and monitoring of flexible and adaptive programmes after the original innovators have left.

Providing sufficient structure

It matters particularly in the context of staff turnover that the Smart Rules are permissive rather than directive about tools for programme management and monitoring. But there are also more general reasons for thinking more structured guidance is needed. Flexible and adaptive programming is not equivalent to a free-for-all. There is some danger of its being understood in this way, if only because other options are not specified.

For example, the Smart Rules declare that logframes are not required in DFID programmes. They do not say that logframes – or equivalent matrices – can be used in ways other than suggested in the 2011 logframe guidance referenced in Section 1 (even though the compatibility of adaptive management and logframes is an old topic in the literature: Mosse et al., 1998). We have seen in the case studies that advisors and implementing partners have become adept at using all of the available room for manoeuvre around the requirements of the 2011 guidance to secure sufficient flexibility. But this has been ad hoc and not entirely satisfactory, as the case study authors recognise.

In Nepal, the fact that the programme outputs were only loosely specified meant the monitoring by DFID, and hence the triggering of payments to the service provider, rested solely on the completion of activities. This could have perversely affected the service provider's motivation to provide outputs contributing to the agreed outcome. If it did not do so, that was the result of the intense interest the DFID advisors took in the success of the initiative and the high levels of trust that were able to be maintained among the different players.

In Nigeria, too, we are told, it was at times difficult to ensure activities clearly mapped across to agreed outputs. There was an unresolved dilemma around how regularly to update the output level of the logframe in a relatively fluid context.

Work is needed on how to adjust logframe thinking (and other programming tools, including 'theory of change') to make it more consistently and routinely friendly to flexible and adaptive working. This is work in progress and this is not the place to get into detail. However, a feasible approach would put completion of a structured and supervised trialling of intervention strategies at the heart of the logframe or equivalent planning and monitoring matrix. A robust process would take the place of a specific set of initiatives or intermediate results in the output rows of the logframe. This would remove the need for constant amendments, allowing the framework to serve its proper purpose of focusing efforts on discovering a viable pathway to the outcome-level objective. It would remove the potential incentive conflicts between the funder and the implementing partner, ensuring a strong focus on learning and cultivating the discipline of 'failing quickly' and making timely adjustments.

Getting uptake by service providers

The final big thing that needs to happen is that all of this discussion needs to be taking place inside the service-providing or implementing organisations – the contractors that manage large aid-funded programmes. The case studies illustrate that flexibility in programme design has been possible thanks in part to the willingness of DFID procurement staff to process commercial waivers and contract amendments. Procurement officials also play an important role in translating the intentions expressed in the Business Case (the current DFID name for a project document) into the terms of reference against which contractors bid. But additional vital detail affecting the way programmes are managed is settled in the proposals made by the successful bidder, and during negotiations around those.

It follows that the argument for new ways of structuring programme management and monitoring that permit flexible and adaptive working must convince those in charge of constructing bids. Those evaluating bids will tend to take the best overall offer. Until the proposers themselves see a clear way of offering a flexible and adaptive management approach without undue commercial risk, the potential for effective extension of the approach into new areas of support to economic development will not be realised. Arguably, getting uptake of the approach described in this publication by the majority of large service providers is the most important and urgent task of all in advancing the cause of smart support to economic development.

4.4 Priorities for action

The argument set out in Sections 1 and 4 of this publication, and supported by the case studies, suggests priorities for development actors in at least four areas:

- International development agencies should take more initiatives that deliver politically smart support to economic development. Although not all of the DFID experience will be relevant to all agencies and contexts, the principles seem applicable to a wide range of economic development problems afflicting very many poor countries. Donor organisations that have the freedom to do so should be encouraged to pick up the lessons and apply them wherever there is a clear gap in provision. The potential rewards, in terms of development results, are enormous.
- Donor organisations should commit larger material and human resources to this kind of development assistance. Contributing to inclusive economic development should be at the heart of donor country programmes. And in few fields of development work is there a stronger argument for deploying and motivating high-calibre advisory staff.
- Initiatives should be backed by adequate guidance on how to operationalise flexible and adaptive programming, so that it is sufficiently institutionalised. There is a significant danger that politically smart approaches will come to be seen as ad hoc and unaccountable. If that happens, we shall all have failed, by not providing the necessary simple guidance on how flexibility and adaptiveness can be reconciled with rigorous monitoring and reporting.
- Service providers and implementing organisations, whether for-profit firms or non-profit entities, should be a central part of this conversation. If they are not, genuinely improved programme designs may remain a rarity. The managements of these organisations should see in their interest to strengthen their in-house capabilities in this area. If they do so, they will be able to put together stronger proposals and have greater capacity to deliver effectively when a funder indicates a preference for flexible and adaptive working. Subsequent negotiations and programme review processes may be expected to be more productive and mutually beneficial as a result.

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Overseas Development Institute
203 Blackfriars Road
London SE1 8NJ
Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399

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