

Politically smart support to economic development

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Kick-starting more inclusive economic development processes in the world's poorest countries is one of the most important challenges in international development. Because of the way politics works in these countries, it is also one of the most difficult. This is a reason for international development agencies to get involved. But it also means any support must be politically smart.

To be politically smart, interventions need to be targeted, flexible and adaptive. They should also be funded at arm's length, so nationals of the country lead the main reform effort, with freedom to navigate around major political obstacles. Recent initiatives supported by the UK Department for International Development (DFID) in Nepal and Nigeria illustrate the substantial potential of this approach.

- **Politically smart, flexible and adaptive programming** should be the default approach of donors and partners seeking to support economic development.
- **Donor organisations should commit more resources** to this kind of development assistance.
- **Initiatives should be backed by adequate guidance** on how to operationalise flexible and adaptive programming.
- **Service providers and implementing organisations should be fully involved** in the conversation about delivering politically smart support.

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The issue

Almost without exception, today's poorest countries need faster and more employment-intensive economic development. While many have experienced extended periods of economic growth since the 1990s, a common pattern is jobless growth, where far too little is done to absorb an increasing supply of youthful labour. This state of affairs usually boils down to politics. The reasons 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 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 few good examples of how to do this.

For these reasons, it is welcome that DFID experience now includes at least two good illustrations of politically smart, adaptive working on major economic challenges. These have been written up as case studies for DFID's Governance for Economic Development workstream. They are now included in an ODI publication edited by the author of this Insight.¹ The two initiatives – the facilitation of a major investment in hydro-electric power generation in Nepal and the recovery of illegally privatised oil revenues in Nigeria – add force to previous ODI research findings on how best to tackle 'governance' problems in developing countries. They also raise new questions about how to take forward flexible and adaptive approaches, in DFID and beyond.



The reservoir of 'Chandrajyoti hydro-electric power station' in Pharping, Kathmandu, Nepal. Photo: ICIMOD Kathmandu

The research

Previous research on governance and development issues at ODI² has pointed strongly to the need for the approach reflected in the two DFID case studies. The main themes of that research help situate the case studies and show their importance. These themes include the importance of the political obstacles to more inclusive development, why comprehensive action on ‘governance’ is not effective in tackling them and the strengths of an approach that is politically smart and locally led.

The two DFID interventions have produced noteworthy results, including investment agreements promising to triple power generation in Nepal, and over £300 million of Nigeria’s public funds recouped. The case study authors underline that uncertainties remain but are able to show the programmes have contributed to country prospects for inclusive development. The key to what was achieved was flexible and adaptive programming and the provision of funding at arm’s length.

The case studies add to our understanding of the underappreciated room for manoeuvre in the politics of economic development and several other issues in the operationalisation of a politically smart approach. They support the view that flexible and adaptive programming, enabling politically smart engagement, should be the default aid approach to a wide range of economic development issues.

Box 1: Brokering hydropower investments in Nepal

In Nepal, the DFID-funded Centre for Inclusive Growth (CIG; 2010-2015) has focused on the country’s huge untapped hydro-electric power 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 to help it broker and negotiate hydro deals. In late 2014, this approach – led by a team of high-quality, mostly expatriate, Nepali professionals – helped achieve 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.

This result was possible for three reasons:

- the DFID funding was flexible – able to be scaled-up quickly in response to a political opening
- it was provided at arm’s length, with limited programme ‘branding’, which assisted the Nepali players to navigate the complex collective action challenges created by Nepal’s fragmented politics
- DFID managers stayed committed and closely engaged, in the knowledge that UK aid was shouldering the risks associated with a large potential reward.

Main findings

Why this matters

Typical political patterns in developing countries affect the conditions for economic development in several negative ways. This is supported by a large and ever-growing body of research, which finds that:

- Investors need credible commitments concerning the security of their sunk costs and future profits, and private profitability depends on the provision of public goods, including infrastructure, a trained and healthy labour force, and a minimum of investment coordination.
- But typical political patterns work against these basic conditions. With few exceptions, country leaders give priority to placating power-holders, feeding a patronage-based system of control and winning the next election. Few feel able to look beyond the short term.
- The resulting uncertainties steer investors into rapid-turnover commercial and service activities and away from fixed capital investments and large-scale productive employment.

In the absence of action to break into these kinds of vicious circle, some poor countries may 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. Given the lack of unequivocal commitment to economic development from governments, there is ample justification for donors to take a hand in the matter. But this applies only if external support can interact more productively with country systems than in the past.

Why politically smart

For the past 30 years, donor efforts to address the dysfunctional politics of economic development in poor countries have tended towards prescriptive and poorly targeted efforts to promote ‘good governance’. Based on exporting the best practices of late-20th century liberal capitalism, these efforts have not been well aligned with the bulk of the historical and comparative evidence on feasible pathways to inclusive development. They have also had a poor record of success. On the other hand, history is full of evidence of the power of well-targeted partial reforms to make a difference to economic performance in the medium term. And sustained economic inclusion has proven a reliable route to improving politics in the long term.

How to do targeted reform depends on the context and often means building on what exists rather than importing solutions. Almost always, it also involves taking account of the high level of unpredictability that is a feature of the ‘everyday politics’ of reform – which rewards those capable of being opportunistic. In addition, the political economy of economic development is a complex system, subject to a high level of uncertainty. Since in this type of context the results of a given intervention cannot be known in advance, adaptation or ‘learning by doing’ is the only realistic approach.

Box 2: Recovering oil revenues in Nigeria

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. With majority-Nigerian staffing, 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.

FOSTER is able to get results in an exceptionally difficult context for developmental reform for three reasons:

- It works adaptively, responding creatively to opportunities and lessons of experience without losing sight of the desired long-term outcome
- The mode of intervention is politically smart, based on intensive networking and partnerships within and outside the state
- The programme management keeps a low profile, not claiming credit for results on its own behalf or on behalf of DFID.

The initiatives supported by DFID in Nepal and Nigeria help illustrate what this means. The funding was provided flexibly, in the sense that considerable room was allowed to scale the interventions up or down and/or to redirect them in response to a changing structure of opportunities. The approach was also adaptive, meaning front-line actors were encouraged to learn through trial and error what was likely to work best. Flexible working made it possible to seize unexpected opportunities and quickly recognise dead-ends. Adaptiveness gave the teams the space to discover through experience which of the possible ways of navigating the politics would have the fewest unanticipated negative consequences and the best chance of realising the desired outcome.

Lessons from the case studies

Importantly, the DFID support was provided at arm's length. DFID country offices were closely involved in monitoring and steering the programmes. However, 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 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 could work for the country actors.

The cases add to the evidence that systemic political obstacles can be tractable if this sort of approach is adopted. Importantly, they also illustrate how a targeted or problem-driven approach can contribute, more reliably than comprehensive reform, to durable institutional improvements.

Together with evidence from other contexts, the DFID experience in these two countries suggests 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 should mean a new emphasis on tackling economic growth and 'governance' challenges together, so the connections between them come to the fore. In extending the approach to contexts other than Nepal and Nigeria, of course, a different mix of flexibility (responding to volatile politics) and adaptiveness (learning-by-doing in the absence of known solutions) may be required.



Niger Delta. Photo: Stakeholder Democracy Network

Extending the approach

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 possible without intensive involvement with country-level organisations. Also, not all international development agencies are able and equipped to address the institutional challenges described here by becoming politically smarter. With those qualifications, however, DFID's experience of flexible and adaptive programming in support of politically smart reform warrants careful study by a range of international agencies and specialists in different intervention areas.

In DFID's experience, these sorts of initiatives rely greatly on the initiative and imagination of senior staff in country. It follows that extending the approach will only be achieved if donor organisations commit larger material and human resources to it. The cases also suggest two further preconditions.

First, steps need to be taken to institutionalise key practices by backing them with adequate guidance, including on appropriate results frameworks and reporting rules. Exclusive reliance on the creativity of senior advisors in country offices is neither desirable nor necessary, given the feasibility of presenting adaptive and flexible working in a structured way.

Second, a substantial effort is needed to extend the thinking from donor agencies to their implementing partners, including contracted service providers. The case studies illustrate the importance of a close and trusting relationship between the funding agency and implementers. A key requirement for the future will be a larger range of service providers that can routinely deliver politically smart, flexible and adaptive, programme designs and manage them well.

Policy recommendations

Politically smart, flexible and adaptive programming should be the default approach of donors and partners seeking to support economic development.

Not all of the DFID experience discussed in this Insight will be relevant to all agencies and contexts. Nevertheless, the principles seem applicable to a wide range of economic development problems of relevance in 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 very large.

Research and reflection on the two DFID country experiences suggest three conditions under which this overall recommendation is most likely to be achieved:

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- **Donor organisations should commit more material, and especially human, resources to this kind of development assistance.**

Donors should tackle governance and economic development challenges in a more integrated way, so that the connections between them come to the fore. Initiatives that promote stronger collaboration between economists, private sector and politics specialists (such as DFID's Governance for Economic Development workstream) should be extended and replicated.

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- **Initiatives should be backed by adequate guidance on how to operationalise flexible and adaptive programming.**

There is a significant danger that politically smart approaches will come to be seen as ad hoc and unaccountable. As well as receiving strong signals of support from senior managers, operational staff should be able to count on basic guidance on how flexibility and adaptiveness can be reconciled with rigorous monitoring and reporting.

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- **Service providers and implementing organisations should be fully involved in the conversation about ways of delivering politically smart support.**

Whether for-profit firms or non-profit entities, these organisations should see it as in their interest to strengthen their capabilities as managers of flexible, adaptive and politically smart interventions. Donors should rethink the incentives they transmit to implementing partners through standard funding modalities, so as to encourage stronger programme designs.

Notes

1. D. Booth (ed.) 'Politically Smart Support to Economic Development: DFID Experiences'. London: ODI, 2016.
2. T. Kelsall, Business, Politics, and the State in Africa: Challenging the Orthodoxies on Growth and Transformation. London: Zed Books, 2013

D. Booth and D. Cammack, Governance for Development in Africa: Solving Collective Action Problems. London: Zed Books, 2013

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