The SGACA experience: incentives, interests and raw power

Making development aid more realistic and less technical

Joop Hazenberg

The SGACA experience: incentives, interests and raw power

Making development aid more realistic and less technical

Joop Hazenberg[1]

Summary

New roads, water holes, schools, parliaments and anti-corruption committees are necessary but not enough to help developing countries out of their poverty trap. A look behind the façade is needed to understand better with which deeply embedded social and economic structures not only donor countries but also local governments have to deal. This article focuses on the latest trend in the development of aid analysis: the political economy analysis, as developed by the Netherlands Ministry of Foreign Affairs, titled the *Strategic Governance and Corruption Analysis* **(SGACA).[2] The SGACA has been designed to shed light on the historical context and the formal and informal factors that shape the governance climate. Because of an increasing need to make development aid more effective, the political economy analysis has gained considerable popularity. This article explores the potential of the instrument and its way forward.**

From decolonization to 0.8

Over the last thirty years, Nigeria received development aid worth 280 billion dollar. Nigeria is a resource-rich country, with enormous oil reserves. Despite all the efforts of donors and despite the country's potential, Nigeria remains corruption-ridden and badly governed. Seventy percent of its people live below the poverty line.

In neighbouring Chad, things are not much better. It is a landlocked country with aid and oil, where development strategies only exist on paper. The Chad Ministry of Finance discovered in 2004 that less than 1 percent of money intended for rural health clinics reached its destination. Helping countries to improve their internal situation is difficult and not without pitfalls. Before we delve into the Dutch SGACA methodology and its use, we first look into the background of aid. Insight into the history and shortcomings of the aid system will help to better understand the demand for political economy analysis.

1 *Joop Hazenberg is a former diplomat and has been working on good governance and the SGACA exercise between June 2008 and March 2009. He currently works as freelance researcher and writer and is starting up the Dutch think-tank Prospect (www.denktankprospect.nl). His book Change will be published in June 2009. For more information, see: www.joophazenberg.nl.*

2 *See http://www.minbuza.nl/binaries/pdf/dossiers/goed-bestuur/sgaca-framework-2008.pdf*

The nearly fifty years' history of development aid is one full of dips, crises and stumbling blocks. And despite the expected increase in the volume of aid in the coming years (the EU member states have promised to boost their budgets), we cannot expect this process to become much smoother. Realistically speaking, dozens of countries will probably remain severely poor and unstable for decades to come, despite the help they receive from the developed world.
This picture was not so bleak in the sixties, when development aid first took off. After the decolonization of large parts of Africa and South Asia, western governments decided to assist with the (re)construction of these 'liberated' societies. Technical assistance and project aid were very popular tools for this, mainly allocated through bilateral aid. Hundreds of billions of dollars have been spent since, with the primary goal of bringing development and lifting people out of poverty.

Because the project approach proved unsustainable with only local effects, in the seventies and eighties the focus shifted from micro to macro-level aid. The IMF and the World Bank started promoting economic reform, setting up infrastructure and a market oriented system. They focused on what was considered just a 'gap' between developing countries and the developed countries, that needed to be overcome by providing technical assistance and building democratic values. Structural Adjustment Programmes were to 'liberalize' the developing countries by promoting macro-economic thinking. In fact, these countries were forced to implement administrative, economic and social reforms and open their fragile markets to the world economy. In many cases, this policy turnaround led to chaos, with some countries even going bankrupt.

NGOs also made mistakes in the eighties. Their blueprints of integrated regional development programmes, meant to develop agriculture, education, health care and other sectors simultaneously, were a failure. Combined with the outbreak of the AIDS epidemic, violent conflicts and famines, Africa came close to a pan-continental crisis of failure and disintegration. Also in Latin America, crises emerged and countries failed to connect to the world economy.
Lessons were learned and the development sector chose new policy paths. By the end of the twentieth century, aid agencies focused on entirely different issues than they had done at their inception: infrastructure went out of fashion, post-conflict strategies became more popular. The focus of the international community was diverted to sectors and to governance and democratic processes. In the Netherlands, the system of project aid was replaced by a combination of a sectoral approach, a smaller number of partner countries, debt relief and general budget support. In 2008, the Ministry reached – with aid amounting to 0.8 percent of GNP – the magical figure of five billion euros of development aid, spent in 36 countries, most of them in Sub Saharan Africa.

There appears to be an ongoing shift in aid policies. The focus changes constantly, from micro-level (building schools, vaccinating people) to macro-level (budget support, sector-wide approaches). Furthermore, the aid sector became less ideological and more professional. Until the 1980s, development aid was a sector for highly motivated and ideologically driven people. From the 1990s onwards, a more business-like approach gained ground, as the increasing focus on monitoring, measurement and aid effectiveness has clearly shown.

Why political economy analysis?

Despite the many changes, improvements and adjustments to aid policies over time, there are clear signs that aid still does not work optimally. Paper tigers hit the sand in a dusty reality. From a public point of view, it's hard to solve problems just by throwing money at people in far-away countries. Despite numerous conferences, books, research programmes, policy notes, statements

(such as 'Accra'), and more coherence and alignment, we have not yet found the silver bullet or the perfect road map. The real success stories of development aid remain limited (and if there are successes, they are poorly communicated to national parliaments, media and the general audience), because of the many 'good' choices that need to be taken before development can take off. In the eyes of the Western world, it is important to get a whole set of 'levers' right, for instance on sound macro-economic policies (the so-called Washington Consensus), and also to fulfil standards on democracy and the rule of law. But there are clearly numerous obstacles that prohibit further development.
Over the last decades, development agencies have tried many different angles: from a more institutional approach to introducing clear-cut market rules, from promoting CSOs and media to building schools, roads and hospitals. It has resulted in a clear 'development fatigue', not only on the donor side, but also in many partner countries and among the general public in the West. The critical notes in Dutch Parliament and several 'anti-aid campaigns' by media are just the latest examples of this development. In the Paris and Accra agenda donors together with partner countries tried to get rid of the 'flip-flopping' of policies.
Success is still far away, despite all the efforts to get the policies right. Development aid still is based on highly westernized thinking, in which the own values, norms and state of development are considered the ideals to be worked towards. After almost five decades of aid, donors have to admit that their way of thinking must be pushed to the background and that instead they have to start looking at development from the perspective of the developing countries.

The obstacles to development are not yet clearly defined. Therefore, more insight is needed into governance and political processes, coupled with the recognition that technical programmes have not delivered change. The methodology of the *political economy approach* (PE) has gained popularity in policy arenas.[3] Not as a revolutionary tool to find the hidden path towards development, but as a means to change the focus of aid policies towards a more political and less technical approach. Donors are increasingly aware that politics matter to development. Real change can only be achieved by challenging dominant political and economic interests.[4] This implies an understanding of these interests and how they are shaped. Political economy analyses have been designed with the aim to provide in-depth knowledge of the different factors that determine incentives for change. PE acknowledges the need to know what is going on 'behind the façade', and hence the importance of informal norms, practices and patterns of behaviour for development outcomes.[5] PE analyses can potentially contribute to more effective and realistic development aid in terms of planning, programming, risk assessment and dialogue.
The most famous PE analysis has been the British *Drivers of Change* instrument, which applies political economy analysis to the development of donor strategy. Early this century, DFID (the UK department for development) carried out 25 studies involving in-depth, country-level analysis. With these studies, the policy makers could identify the opportunities, incentives and obstacles to pro-poor change in a given country. The methodology focused on the political institutions, structures and agents that can act as key levers.

3 *Political economy is a relatively broad and interdisciplinary term for many aspects of economic laws and development. In this context, it used to refer to the interaction between institutions and human behaviour, the way in which the former shapes choices and how the latter change institutional frameworks.*

4 *Bieckmann (2008)*

5 *See chapter 3 in this sourcebook by Harth and Waltmans*

The SGACA instrument

The Dutch SGACA methodology builds on the experience and knowledge that came out of SIDA's (Swedish International Development Agency) Power Analysis and DFID's exercise. The *Drivers of Change* was a very useful exercise. However, because it is a broad and flexible approach that looks for concrete persons or institutions that can foster change, it does not offer a systematic methodology or toolkit. Moreover, the *Drivers of Change* studies had mixed results: they differed in depth and width and operationalization remained a challenge. The Institute Clingendael and the Overseas Development Institute took these lessons into account when developing the 'Strategic Governance and Corruption Analysis' for the Dutch Foreign Ministry.
The SGACA has been developed to complement existing governance assessments. Over the last decade, the importance of understanding how governance impacts development has gained prominence and, as a consequence, the scope and volume of assessment tools have flourished.[6] A majority of these tools provide an assessment of the current state of governance, without attention to underlying causes and weaknesses. This is a logical reflection of the common donor practice of addressing symptoms of bad governance rather than underlying factors. Donors have concentrated on capacity building of formal institutions, often neglecting the impact of the historical, political and social context on the functioning of these institutions.
The SGACA methodology looks at governance processes through the 'lens' of the political economy. The conceptual starting point of the SGACA is that governance takes shape in the interaction between state and society. Governance is about striking a balance between the power of the rulers and the ruled. Historically this has happened through a process of interaction, bargaining and competition between rulers and organised groups in society.[7] The SGACA explores underlying factors (including territorial integrity, history of state formation, sources of revenue, social and economic structures, geography and the geostrategic position) that shape the formal and informal relations between the state and organised groups in society. In doing so, the SGACA provides insight into the incentives that drive politicians and policy makers and into the potential pressures for change.[8]

Political (economy) analysis is not new and it has existed since the early days of diplomacy. Yet the SGACA can add value to regular political reporting done by embassies in two ways. Firstly it presents a framework to systematically look at the impact of politics on development. Secondly, SGACA can be used to deepen political analysis by explaining the structural factors that determine the rules of the political game. Political reports tend to focus on events and actors in the 'here and now', while the chances for effective and legitimate governance are largely determined by the underlying factors and informal relations.
The SGACA has been designed as a quick-scan, and builds on existing analysis, research and reports. It helps structure and analyse this information in order to deepen the understanding of governance and corruption. It is a structured approach for a country-specific analysis. It does not necessarily bring new information to the table, but it wants to see current developments through a different lens.

The heart of SGACA is the *Power and Change Analysis (PCA)*. An international consultant writes this analysis together with one or two local consultants to secure the local context. This team, together with staff from the Embassy, follows a strict guideline for setting up the research. First,

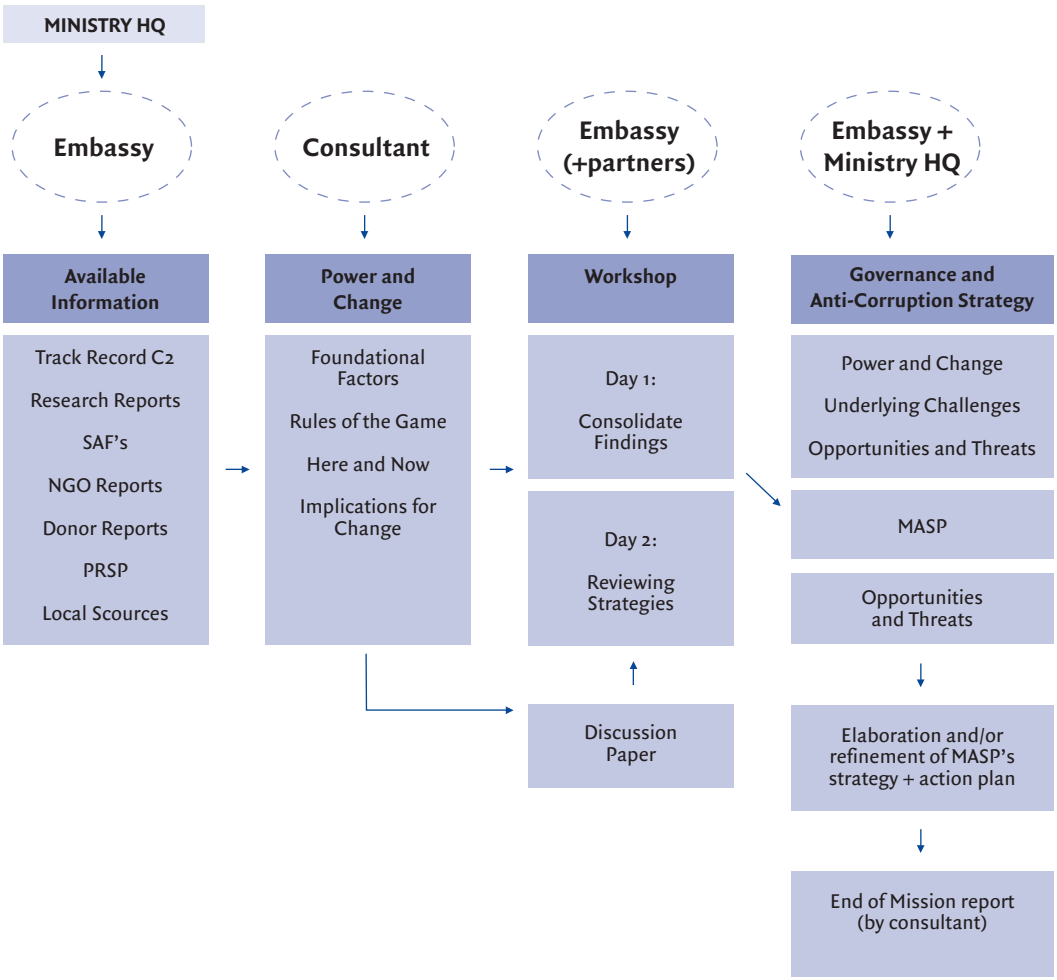
6 *'Donor approaches to governance assessments', March 2009, www.oecd.org/dac/governance/govassessment*
7 *IDS (2007)*
8 *Unsworth (2008)*

they map the factors that fundamentally shape the state and political system (*Foundational factors*). Second, the researchers focus on the key aspects of the political system that affect the quality of governance, both formal and informal (*Rules of the game*). Finally, they address matters that have an imminent impact on state-society relations, such as the current context and main actors (*Here and now*).

All this leads to *Operational implications* and a revision (or confirmation) of the current aid strategy and policy of the Embassy. The SGACA exercise focuses on governance and corruption issues, but without rigid boundaries as these issues tend to 'infect' a country's entire social and economic life.

The structure of the four-step SGACA process is schematically captured in the figure below.

Figure 1: The SGACA process



SGACA entry points for more effective aid

The SGACA instrument can serve as a tool to better understand the complexities and realities of developing countries. The SGACA also delivers opportunities and entry points to enhance the effectiveness of development aid. These are not universal and certainly not quick fixes. So what are these entry points, next to a better understanding of the political and institutional landscape of the partner countries?

1. Adjust the ambitions

Less is more. This cliché is very applicable to development aid. If SGACA shows one thing, it is that progress remains very difficult to achieve. Therefore, we have to adjust our ambitions. If corruption is 'endemic', it must have a profound effect on 'careful steps in the area of government reform' or 'effective implementation of poverty reduction programmes'. Do we really believe that gender programmes can be useful in war-ridden and highly conservative countries such as Afghanistan? Reality and modesty should become more important ingredients of bilateral aid policies, especially in those countries where there is a clear negative trend and development processes have stagnated for years. There is the option of choosing for fewer sectors and priorities and more political pressure to eliminate the discrepancy between the paper reality and the reality on the ground. These sometimes dramatic steps will in the end only improve aid effectiveness.

2. Shared interests

If embassies, the government, local partners and other actors share profound interests, this will stimulate change. These interests have to be identified and written into a common agenda, such as the improvement of the economy, better taxation, education or security issues. That last example is put into practice in Uganda. Every society has its own dynamics and the challenge is to support those that stimulate change.

3. State-society relations / taxation

The SGACA gives insight into the nature of state-society relations and it provides entry-points for support. CSOs can be supported more; not just those that have watchdog functions, but also CSOs that lobby the state or are linked to the government. Another stimulus for dialogue is taxation. The levels of tax revenues are still low in developing countries. When a state wants to collect more tax, it has to pay this price: influence for its citizens. *No taxation without representation*, is a lesson the West has learned over the last centuries. Sharing of interests, a crucial precondition for state building, has hardly developed as a mechanism in poorer areas. Partner governments should focus more on taxation as a means of accountability rather than as a way of enlarging the budget. And donors should do so as well.

Recently, the OECD confirmed that there is a clear link between taxation and governance. Taxation can push the process of state building, legitimize government policy and increase government resources. According to the OECD, it is more important to concentrate on the way the tax is collected, than on its volume. Taxation is not about emptying the pockets of poor people, but about giving them a voice and strengthening their demand for public services. This view is slowly gaining ground in government circles in development countries.

4. Work with the informal rules

If informal structures and rules remain dominant anno 2009, they are likely to retain their influence on formal structures in the near future. Rather than focusing on strengthening and building formal institutions such as anti corruption committees, donors should focus more on the world behind the façade. That means working more directly with non-state actors such as civilians, NGOs, churches and local 'chiefs'. The 'official' way is certainly not enough.

5. Stronger political dialogue

Voice and accountability refers to the highly politicized surroundings of governance. Until recently, governing a country was considered foremost a rather technical process, which could be improved through specialized assistance and the institutionalization of power. Recently, however, recognition has gained ground that this is not the case. Governing a country or a region is first of

all a very political matter. The donor community has come to realize this as well. Outcomes of poverty reduction strategies are often highly dependent on political processes, for instance the resistance of national bureaucracies to give up power to local entities.
Development aid has to take this reality into account. We're not filling the gaps, but have to deal with incentives, interests and raw power. Aid becomes a contract. Democratic principles as *voice and accountability* are crucial elements for political governance. If they are not implemented, the rule of law can become seriously undermined. Therefore, Embassies should make the political dialogue with the partner country much stronger and more structural. That can be done by bringing more elements of diplomacy into technical development aid, but also by promoting public debate, training of journalists, engaging with religious groups, businesses and unions, joint donor policies and other 'sensitive' measures.

6. Decentralisation

Improving governance can be done by focusing at the local levels. Several Embassies support government reform programs, but they also engage in capacity building at the local level (e.g. in Tanzania). A decentralised approach places more emphasis on active participation of the population in political processes, which can be supported by aid to CSOs and the media. Broader consultation, involvement of civilians in monitoring and an increase in transparency are concrete steps that can be taken. The downside to decentralisation is that it can undermine state authority, for instance by facilitating elite capture of local resources.

7. Good governance in sectors

Because it is such a challenge to enhance governance in development countries, an *indirect* policy is preferable. That is where the Dutch sectoral aid programmes come in. They can serve as a double-edged sword: these programmes can both help building schools and hospitals, and increase the quality of local governance. For instance, transparent and predictable local policies are compulsory for the start of the programme. But we can also think of consulting citizens about the sectoral aid, improving communication about the programmes, and encouraging local research. In Honduras, for example, donors have put corruption issues in education projects on the local agenda.

8. More research

A SGACA is a first step, but in many cases still leaves us without a very clear image of the country investigated. For instance, in Ethiopia there is a lack of data on issues such as corruption, the CSO world, and the levels of governance. In other countries it is hard to get a good look behind the façade and behind the formal rule of law.
That is why SGACAs may be followed by further analysis in order to, as researcher David Booth puts it, 'drill down'. The *Power and Change Analysis* (PCA) can point out the weaknesses and shortcomings in the areas of governance and corruption that the Embassy wants to tackle. There might also be subjects that the PCA didn't touch upon and that deserve further research. For instance, the Conflict Research Unit of Clingendael will conduct further research in the Democratic Republic of Congo, at the Embassy's request. Despite the need of policy makers to formulate concrete actions, further in-depth research often remains necessary.

SGACA in practice

The SGACA process will be completed in June 2009. By then, most Dutch embassies will have carried out a SGACA. These embassies may develop or adjust their multi-annual strategic planning or write follow-ups to the SGACA in other ways.
Uganda provides an example of how the SGACA process changes the tactics in the development relationship between donor country and recipient country.
The SGACA has helped the Embassy in Kampala, Uganda, to formulate a multi-annual strategic plan that takes into account political realities in the country. The strategy of the Embassy is based on a sharp analysis of which interests are shared between the Netherlands and Uganda and which are not. Its objective is to support the overlap between the Ugandan and the Dutch policy agenda's, identifying incentives and realigning the instruments accordingly. According to the Embassy, the previous multi-annual strategic plan was both not critical enough of what is happening behind the façade in Uganda and at the same time too ambitious. The 'circle of interest was much bigger than [the] circle of influence'.
Therefore, the Embassy has chosen to focus on only two sectors (education and justice, law and order) and three crosscutting issues (northern Uganda, political governance and taxation/accountability). A clear distinction is made for all the interventions by the Dutch diplomats between activities that fall within the overlap of interests, and activities that aim to mitigate negative effects of actions by the Ugandan government. With this focus, the Embassy aims to be more effective in contributing to concrete development results.

A systematic review of the use of the SGACAs in all countries has yet to take place. So far the SGACA process has led to valuable analytical material. There are differences in depth and quality of the analyses, but the SGACA format allows for interesting comparison between countries at the three levels of analysis (Foundational Factors, Rules of the Game, Here and Now). The SGACA format has also been successfully applied at sector/local level (Tanzania, Ghana).
The main challenge remains the translation from analysis into action.[9] A SGACA does not result in a fixed menu of options, but it indicates possible risks, entry-points and challenges for interventions and dialogue. But the output can just as well be action-oriented and concrete, as demonstrated by the 15 points Action Plan that the Dutch Embassy in Mozambique drew up as follow-up to the SGACA.

Donor harmonisation, in the spirit of 'Paris' and 'Accra', has not proven easy when it comes to political analyses like the SGACA. Most donors at field level have been involved in the discussions surrounding the SGACA process, but there is only the example of Pakistan where a true joint analysis was carried out together with DFID. The OECD/GOVNET has developed principles for harmonised use of governance assessment in an attempt to improve the current practice.[10]
Hopefully, the entry points described in the previous paragraph can be of use to the aid policies of the Embassies. But the SGACA experience does not end here. Political economy analysis is not a one-stop shop, but a change process for better and more effective development cooperation.

There is a trend of increasing popularity of this kind of analysis that is clearly discernible on three levels.
First, the international donor community is very engaged with analytical frameworks for political analysis. The SGACAs are shared with other donor agencies, both in the capitals and on the

9 *For further reading see chapter 15 in this sourcebook by Waltmans*

10 *'Donor approaches to governance assessments', March 2009, www.oecd.org/dac/governance/govassessment*

ground. Usual suspects as DFID and the World Bank focus on governance and a political approach towards aid, but there is also interest for this subject from technical development organizations such as the German GTZ. The foundation of the *Governance Partnership Facility* by the World Bank and a group of donor countries is another example of this popularity. As aid policies come under increasing pressure due to lack of results, donors are forced to look deeper into assumptions on development. They should do that together, not only by sharing their PE analyses, but also by discussing them with local 'change agents': national aid organizations, NGOs, think tanks and journalists in the countries involved.

Secondly, many of the Dutch Embassies in developing countries are implementing the results of their SGACAs. This has shown surprising results and new dynamics within the donor community have started to take shape. Once the SGACAs have been completed, lessons learned for future policy and practice will be collected and shared with stakeholders.

Thirdly, there is growing interest within the Dutch Ministry of Foreign Affairs for the PE analysis. Many departments are working on issues such as aid effectiveness, the relation between governance and growth, sustainable economic development, fighting corruption. All these issues are tackled in the SGACAs. Therefore, the responsible department within the Dutch Ministry – i.e. DMH, Good Governance, Human Rights and Humanitarian Aid – will increasingly act as a *knowledge broker*, linking up policy officers with academics, and connecting the dots into a coherent picture. A concrete Action Plan is currently (April 2009) being drafted. It will set out the activities that DMH and other departments will carry out in order to support political analysis in action.

Conclusion

Making development aid more effective is a challenge for both donor and partner countries. Political economy analysis tools such as SGACA are essential for this goal. They can help to improve aid strategies and formulate realistic objectives for the donors. Ambitions have to be lowered and policies often changed. A more indirect approach, using other partners than just the national government, and working around the embedded corruption mechanisms, is the way forward.

Furthermore, the SGACAs that have been executed so far confirm the need for a more political approach to development aid. Development aid has been a highly technical process for many decades, but with too many failures and shortcomings, and sometimes opposite results. Without knowledge and understanding of underlying factors and the interplay between formal and informal actors, aid will never become a success.

References

Power and Change Analyses in 25 countries (internal documents from the Dutch MFA)

Barber, M. and C. Bowie (2008) How international NGOs could do less harm and more good, *Development in Practice*, 18, 748-754

Bieckmann, F. (2008) Civic Driven Change Initiative. Deep Democracy, *The Broker*, October

Cammack, D. The logic of African neopatrimonialism: what role for donors? *Development Policy Review*, 25, 599-614

Collier, P. (2008) *The Bottom Billion. Why the poorest countries are failing and what can be done about it*. New York: Oxford University Press

Fritz, V. and A. Menocal (2007) Development states in the new millennium: concepts and challenges for a new aid agenda, *Development Policy Review*, 25, 531-552

Grindle, M. (2007) Good enough governance revisited, *Development Policy Review*, 25, 553-574

Harth, K. and J. Waltmans (2007) Behind the façade. The informal reality in developing countries'. In: *A rich menu for the poor. Food for thought on effective aid policies*. The Hague: Ministry of Foreign Affairs (DEK).

IDS Policy Briefing (2007) How does taxation affect the quality of governance?. March

Kelsall, T. (2008) Going with the grain in African development? *Development Policy Review*, 26, 627-655

Koenders, B. (2008) *The Democracy – Development – Security Nexus*. Speech at the Dutch MFA, 22 May

Koenders, B. (2008) *Democracy and Development*. Speech at the Dutch MFA, 13 September

Unsworth, S. (2008) *Framework for strategic governance and corruption analysis. Designing strategic responses towards good governance*. The Hague: Conflict Research Unit Clingendael