



**Australian Government**

**AusAID**

Office of Development Effectiveness

# Review of Literature and International Practice in Policy Dialogue

POLICY DIALOGUE EVALUATION

JULY 2011



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## Acronyms

|        |                                                                          |
|--------|--------------------------------------------------------------------------|
| ARDE   | Annual Review of Development Effectiveness                               |
| AusAID | Australian Agency for International Development                          |
| DFID   | Department for International Development                                 |
| MDG    | Millennium Development Goals                                             |
| ODA    | Overseas Development Administration - UK Foreign and Commonwealth Office |
| ODE    | Office of Development Effectiveness                                      |
| OECD   | Organisation for Economic Co-operation and Development                   |
| ODI    | Overseas Development Institute                                           |
| Sida   | Swedish International Development Cooperation Agency                     |
| UNRISD | United Nations Research Institute for Social Development                 |
| USAID  | United States Agency for International Development                       |

## Executive Summary

The Office of Development Effectiveness (ODE) at AusAID has commissioned an evaluation of how policy dialogue can be applied in different contexts by AusAID staff. This review of theoretical literature and international practice introduces the key concepts relating to policy dialogue between donors and recipient governments to inform the wider analytical framework for the evaluation.

Policy dialogue is defined variously by different agencies, with each describing different processes and outcomes. Many definitions fail to recognise policy dialogue as an inherently political and contested process. This paper proposes that policy dialogue between donors and recipient governments be understood as a negotiation over the allocation of values. Values are defined as the degree of importance that can be attributed to an object, action or concept. On the surface, dialogue appears to be more about the allocation of resources (for example, dialogue over budget support). However, this paper proposes that the direction of allocation of those resources will be guided by values. It is accepted that there will be legitimate differences between recipient governments and donors over the allocation of values in relation to development and these differences occur against a backdrop of power and knowledge imbalances. The negotiation of the allocation of values should not be understood as one-off events, but rather as a continuous process which occurs at the initial political stages of policy change, through more institutional aspects of policy implementation to operational policy outcomes.

The internal and external factors that affect the degree of influence that can be exerted by a donor are categorised in terms of economic, ideological and institutional conditions. The conditions over which AusAID has most influence are given particular attention, including legitimacy, clarity of intent, acknowledgement of political risk, staff incentives and training, and use of appropriate donor instruments.

The definition of 'success' in policy dialogue depends on the political agenda of the donor. The higher the political agenda of the donor, the more useful it is to define the success of policy dialogue in terms of influence exerted. Evidence suggests however, that dialogue based on coercive conditionality (that is, when donor influence is heavily exerted) does not necessarily produce pro-development outcomes and has, in fact, led to inefficient aid investments. In cases where the overt political agenda of the donor is low and the focus is on development outcomes, this paper argues that the degree of influence exerted is not a useful measure of success. In these cases, successful dialogue can be defined in terms of the power symmetry between donor and recipient government. More specifically, effective policy dialogue occurs when the negotiating capital of each party are comparable. In the context of aid negotiations, effective policy dialogue may include activities which aim to increase the negotiating capital of recipient governments. Somewhat counter-intuitively, this may mean that a recipient government refusing to agree to a donor-driven policy may represent 'successful' dialogue.

This document also reviews the experience of the United Kingdom's Department for International Development (DFID) in becoming a 'policy capable' organisation. While it was

not possible to conclude whether DFID is in fact conducting 'successful' dialogue, it was clear that DFID has changed from an organisation that dialogued mainly on technical issues to an organisation which dialogues at high levels on contested political issues. This change was initiated in 1997 through the transformation of the Overseas Development Administration (ODA), which operated as a wing of the Foreign and Commonwealth Office, into DFID, an independent ministry. This transformation resulted in DFID staff having access to higher levels of power and becoming part of more senior mechanisms. Various initiatives within DFID facilitated this transition, such as cross-departmental secondments, screening for policy influencing skills, and promotions based on success in policy influence.

# 1. Introduction

The purpose of this literature review is to inform the design of an ODE evaluation of Policy Dialogue that will build on the findings in AusAID's 2009 Annual Review of Development Effectiveness (ARDE 2010). It provides a broad scan of the current literature and analytical frameworks on policy dialogue, details the internal and external factors which influence success, and comments on policy processes in other aid agencies.

## 1.1 Purpose of this document

There is a recognised need for more, and better, policy dialogue within AusAID. The *Annual Review of Development Effectiveness 2009* (AusAID 2010) identified the need for AusAID to be more robust, broad and frequent in its policy dialogue:

*'In the absence of strong policy dialogue, Australia sometimes struggles to position its support in a way that helps its partners to make best use of the resources available to them to improve service delivery. The lack of strong policy dialogue at all levels also hinders agreement with partners on how best Australia might be able to support their strategic priorities' (AusAID 2010, p. 57).*

The ARDE 2009 findings are consistent with those of the 2008 OECD Development Assistance Committee (DAC) peer review of Australia's aid program, which identified a need for Australia to continue developing its internal and external capacities to enhance policy coherence for development as part of its whole-of-government approach to delivering aid (OECD 2008, p. 37).

The Office of Development Effectiveness (ODE) has commissioned an evaluation to provide a greater understanding of how policy dialogue can be applied in different contexts by AusAID staff, working in country and other programs.

This document provides an introduction to policy dialogue, drawing on international experience and lessons from other donor agencies. It will respond to three research questions:

1. What are the different definitions of policy dialogue, and the different ways that success is defined?
2. What is known in international practice on the factors internal and external to donors that affect the success of policy dialogue?
3. What are the lessons on how other donors have managed these factors, successfully or otherwise?

The purpose of this document is to inform the wider analytical framework for the evaluation of Policy Dialogue.

This paper is organised as follows:

- this section describes the purpose and methodology of the paper

- section 2 discusses the definitions of policy dialogue, how we define a policy, and outlines the dimensions and pathways for policy dialogue
- section 3 discusses internal and external factors shaping the effectiveness of policy dialogue
- section 4 considers the issue of measuring the impact of policy dialogue
- section 5 draws on the research from interviews with aid agency officials and summarizes the transition made by DFID from a project-focused to a more policy oriented and 'policy capable' organisation.

## 1.2 Methodology

The literature review used two main sources of information.

- A review of international literature on policy dialogue. Key concepts of policy dialogue were brainstormed, ensuring that a broad concept of political economy was embraced.
- Interviews with selected officials and former officers of other aid agencies, including DFID and the Independent Evaluation Group at the World Bank. Particular attention was paid to DFID as an agency that has invested in improving both the extent and quality of its policy dialogue, starting from the late 1990s. The interviews were conducted using semi-structured questions, which can be found in Annex 2. Twelve individuals were asked to contribute, of which seven responded. The individuals were selected based on experiences of either conducting policy dialogue, or in the case of DFID, their involvement in institutional efforts to increase the 'policy capability' of its staff. Positions held by the interviewees included former Heads of Department at DFID and a Lead Evaluation Officer at the Independent Evaluation Group at the World Bank. All interviewees were assured of anonymity. A timeline was formed from the details of the interviews.

## 2. What is Policy Dialogue?

What is the evidence of growing interest in policy dialogue? This section will provide a definition of policy dialogue and a framework for considering how to engage with partner governments.

### 2.1 Evidence of growing interest

There is growing interest in AusAID for instituting policy dialogue in programming. New ways of delivering Australian aid programs were set out in the Port Moresby Declaration of 2008, which committed AusAID to:

*'[w]orking in close cooperation with the Pacific island nations to meet our common challenges and to raise the standard of living for people throughout the region'*  
(Rudd 2008a).

Development policies have increasingly become joined with broader regional and international policies. Issues include regional security, trade, economic integration, and trans-boundary threats including communicable diseases, counter-terrorism, human trafficking, drugs and organised crime. Policy coherence for development is also promoted for internal reasons because Australia's domestic policy interests are bound with foreign and security issues of which development issues are part (Rudd 2008b). AusAID recognises that developing close relationships with partner governments results in benefits for both parties.

Improving the quality of relationships and strategic partnerships is also consistent with other global development initiatives such as the Paris Declaration and Accra Agenda for Action (OECD 2005) and the Millennium Development Goals (MDGs). Both the Paris Declaration and the MDGs feature principles of ownership, partnership, and mutual accountability (Barder 2006). These principles are being incorporated into donor approaches to policy dialogue.

### 2.2 The challenges of defining policy dialogue

#### Definitions of policy dialogue

While the ODE *Annual Review of Development Effectiveness 2009* (AusAID 2010) identified a need for AusAID to have a stronger foundation in policy dialogue, there has not been consensus on the definition within AusAID.

For the purpose of starting this evaluation ODE suggested the following definition:

*...policy dialogue [is] a way of working with partner countries to explore and implement policies that accelerate sustainable and equitable growth, improve the allocation of the entire budget, and enable a broad cross-section of stakeholders to engage in policymaking.*

Inherent in a definition of policy dialogue are two parts: the process of the dialogue, and the results of the dialogue. Different organisations conceptualise the process and the result of dialogue differently. ODE defines the process as 'working with partner countries' and the result as 'accelerating growth'.

The United States Agency for International Development (USAID) understood the process of dialogue as:

*'... a mechanism to incorporate the interchange of ideas and information whereby either viewpoints or both can change to bridge the initial differences between the two' (USAID 1982).*

And the result as:

*'[t]he aid recipient comes to view the policy advice as genuinely in the interest of its own economic progress' (USAID 1982).*

Drawing on the process definitions from USAID and ODE, both describe a give-and-take process of communication and interchange of ideas or viewpoints. However both definitions fail to incorporate the politics of an exchange of ideas.

Secondly, analysing the results definition from USAID and ODE gives us a picture of the negotiation of political interest between the donor and recipient country.

What is missing is the recognition of the politics in the political economy in negotiating *values*. We define values for the purpose of this paper as the degree of importance that can be attributed to an object, action or concept. UNRISD proposes a definition which brings the politics to the forefront:

*'Policy dialogue is defined as organized deliberation between two or more actors on the allocation of values that is likely to result in new policies or modification of existing ones' (UNRISD 1997).*

This paper proposes that policy dialogue between donors and recipient governments be understood as a **negotiation over the allocation of values**. On the surface, dialogue appears to be more about the allocation of resources (for example, dialogue over budget support). However, this paper proposes that the direction of allocation of those resources will be guided by values. It is accepted that there will be legitimate differences between recipient governments and donors over the allocation of values in relation to development and these differences **occur against a backdrop of power and knowledge imbalances**.

The negotiation of the allocation of values should not be understood as one-off events, but rather as a continuous process which occurs at the initial political stages of policy change, through more institutional aspects of policy implementation to operational policy outcomes.

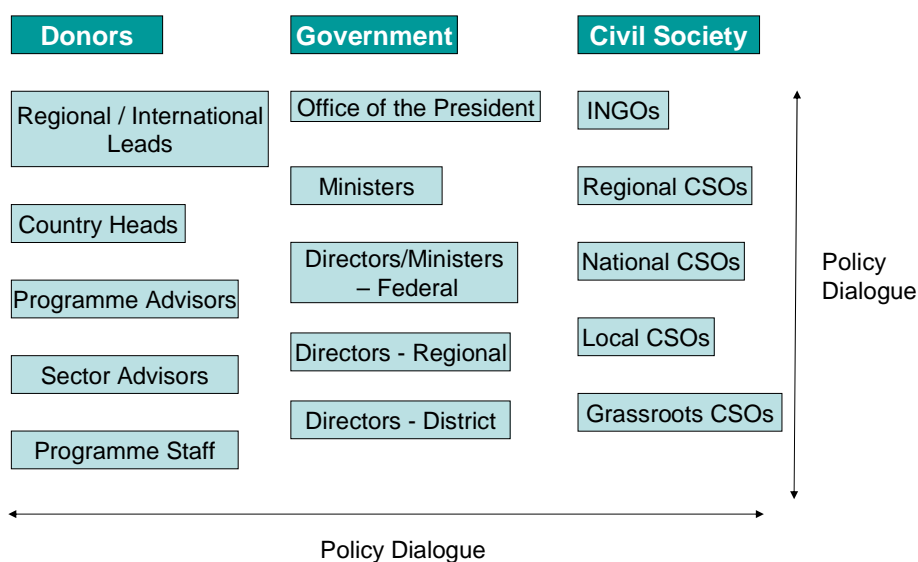
## Question for the evaluation

How is policy dialogue understood within AusAID?

### What is policy dialogue? What is not policy dialogue?

For donor and recipient governments to achieve development outcomes, effective dialogue is essential to first agree (negotiate) a shared understanding of those outcomes. Figure 1 demonstrates the plural nature of policy dialogue. To ensure policy coherence amongst all actors, dialogue needs to occur at all hierarchical levels (from grassroots level to international level), and between donors, government and civil society.

Figure 1: Multiple levels of dialogue



Source: theIDLgroup 2011.

Policy dialogue has the possibility of **transformational** outcomes rather than transactional outcomes. The terms transformational and transactional were originally economic terms describing the different types of financial costs. Through the lens of new institutional economics, the terms have been transported into development language and are defined as institutional changes (North 1993).

Transactional change is defined as changes that have a final value no greater than the initial input for the change. Transformational change is defined as changes that create a greater final value than the initial inputs (North 1993). Aid projects that simply transfer resources are 'transactional', such as the delivery of food aid. Those which leverage wider or longer-lasting outcomes – by changing the 'rules of the game' – are transformational. An example would be deregulation of telecoms, with the outcome that that citizens have – through competition – access to better and cheaper mobile telephone services.

To ensure transformational changes, different dimensions of influence between different

actors need to be identified. Further there needs to be an understanding of the influences of power dynamics to understand each actor's behaviour.

### **Question for the evaluation**

At what level does policy dialogue take place in AusAID?

### **Engaging in policy dialogue - choice and roles**

As discussed above, defining policy dialogue is difficult. The two portions of the definition, the process and the result, can be very varied. Every organisation conducts policy dialogue differently. For example, China has a different process of communicating and negotiating their aid than USAID. Policy dialogue is a process of communicating and negotiating of values in a landscape of power and knowledge imbalances.

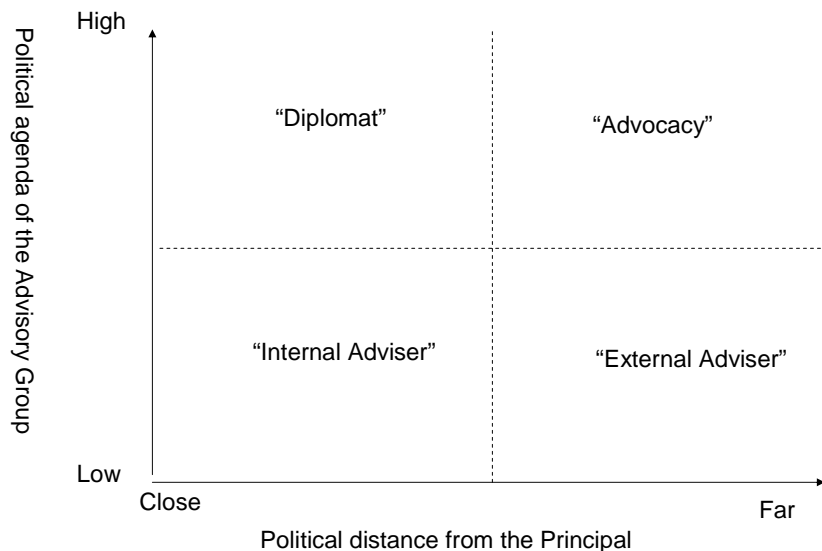
It is thus useful to categorise different dimensions of policy dialogue, based on the advisory group's political agenda and their political distance from the recipient country, in a framework to visualise the congruity of these values (Figure 2).

The horizontal axis represents the political distance of the advisory group from the principal (the principal being defined as the recipient government). Being located far from the principal indicates that the advisory group is largely operating outside the political sphere of the principal. Being located close to the principal indicates the advisory group is directly interacting with the principal's policy processes.

On the other hand, the vertical axis shows the extent to which the advisory group is acting in their own national political interest. Being located low on the vertical axis indicates that the advisory group is relatively disinterested in their national political agenda. Being located high on the vertical axis indicates that the advisory group is vigorously pursuing a national agenda.

This suggests four broad types of policy engagement when considering the communication and negotiation between advisory group (donor) and principal (recipient country).

**Figure 2: Types of policy multiple levels of dialogue**



Adapted from Von Haldenwang and Alker (2009).

Four illustrative roles can be extrapolated.

- **External Adviser:** The external adviser sits politically distant from the recipient government and they are not acting within their own national political agenda. This may be seen as the traditional type of technical advice. Their function is to develop orientations for political decision making, providing critical support in the implementation of public policy. It is usually short term, intermittent, and provided on request.
- **Internal Adviser:** The internal adviser sits within or alongside the recipient government and interacts on a frequent basis. The agenda is mainly set by the principal. This type of policy advice is provided by research teams, policy advisers, or individual donor staff that are well-integrated into the political structure.
- **Diplomat:** The diplomat works closely with the recipient government, but is acting strongly on their own national agenda. Their role is to influence the principal's policies, in favour of their own country's national political agendas.
- **Advocacy:** The advocacy group is located far from the principal politically and is not acting in close alignment with the recipient country's national agenda. Advocates represent a particular interest and often engage in types of political mobilisation.

The four types of engagement illustrated in Figure 2 are not mutually exclusive. Organisations do not solely use one method in communicating or negotiating with the partner country, but rather use all four forms in a balanced mix.

## Pathways for policy change

Whatever role is being played (Figure 2), AusAID staff need to recognise alternative theories of change. Stachowiak (2007) describes six theories on how policy change can happen. Theories of change can help donors recognise 'windows of opportunity' for policy change. Stachowiak's categorization of theories of change is as follows:

1. **'Large Leaps' theory** recognises that when the conditions are right, change can happen in sudden large bursts that are significantly different than past conditions. If AusAID subscribes to this theory, policy dialogue is essential before and during periods of 'extraordinary politics' (Box 1) in order to prepare for and respond to the conditions for transformational change.
2. **'Coalition' theory** proposes that individuals have core beliefs about policy areas and by working together in a coordinated fashion, policy change can occur. If AusAID subscribes to this theory, a key function for policy dialogue would be to enable a strong coalition of interests and constituencies, including well-coordinated actions with other aid agencies.
3. **'Policy Windows' theory** proposes that policy can be changed during a window of opportunity when policy actors successfully connect two or more components of the policy process: the way a problem is defined and the policy solution to the problem. Policy dialogue would focus on spotting opportunities to make the connections and accurately determine when certain policy windows were open to advocate for a chosen policy.
4. **'Messaging and Frameworks' theory**. People make rational decisions by weighing different options, costs and benefits and then choosing the one that will bring most benefit. Research can develop different preferences based on which ways options are presented or framed. If AusAID subscribes to this theory, policy dialogue would focus strongly on evidence-based analysis of policy options and a knowledge of which messages and evidence require preferential communication.
5. **'Power Politics' theory** proposes that power to influence policy is concentrated in the hands of elite groups. Policy dialogue would focus on first understanding the self-interest of these groups, and then influencing individuals or small factions among donors and government elites.
6. **'Grassroots' theory** considers power as changeable and dynamic, and that groups can create power by taking mutual action to achieve social change. Policy dialogue would concentrate on actions that promote broad-based, plural, dialogue and the opening of new policy spaces for grassroots society.

These six theories influence how we interpret events in the world. Depending on the theory, it will influence how and when policy dialogue is used and changes the target area of influence. One of the challenges for AusAID is that there is no one single pathway for policy change. Individuals may experience change in one country, and believe how that change happens, but then find that the process is not replicable elsewhere. De Melo et al (1997) contrast the huge changes in policy that occurred in Eastern Europe after the collapse of the Soviet Union with the slow incremental change in China and Vietnam (see Box 1).

### Box 1: Extraordinary politics: an example of 'large leaps' theory of change

Several studies carried out in the 1990s drew a link between political transition and intensity of reforms. It was found that economic reform was easier in former Soviet Bloc countries where rapid and fundamental political change had taken place. In these countries, an initial period of 'extraordinary politics' provided a window of opportunity for policy makers to push through decisive reforms. The question remains as to whether extraordinary politics also leads to good economics. In Eastern European countries and the former Soviet Union, the fast transition from economic protection to liberalisation was associated with accelerated contraction of the economy and hyperinflation. In comparison, China and Vietnam benefited from high growth in GDP throughout their more gradual reforms (Balcerowicz and Gelb 1995; Aslund 1995; and De Melo et al 1996).

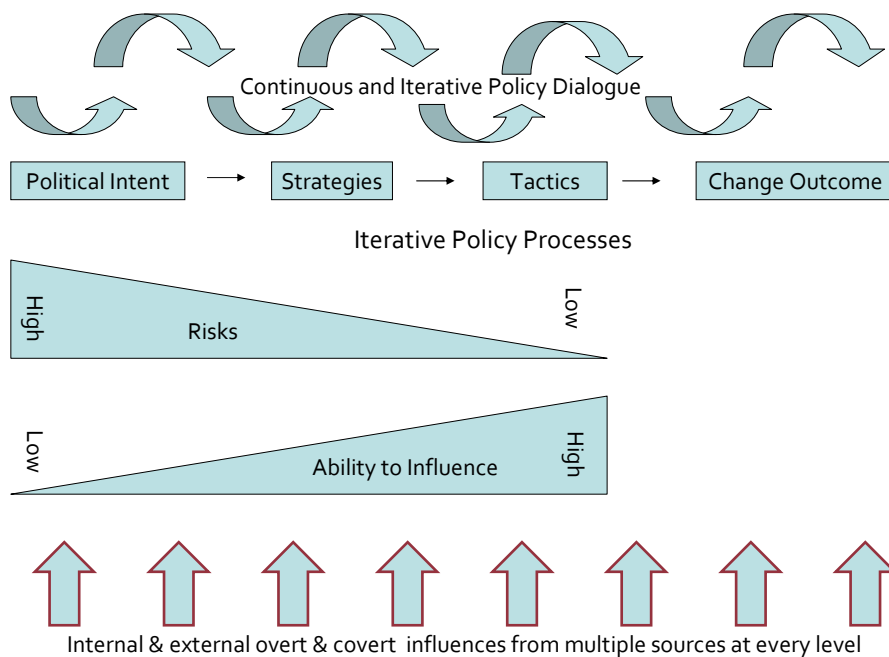
Aid managers need to be alert to periods of 'extraordinary politics' such as the collapse of the Soviet Union in the 1990s or the 'Arab Spring' of 2011.

### Policy dialogue needs to be a continuous, iterative process

Policy does not move neatly from stages of agenda-setting and decision-making to implementation, as Box 1 illustrates. Policy reforms are often contested, and reshaped at multiple stages. Figure 3 illustrates how policy dialogue is a continuous process and must be done iteratively. There are also varying levels of sovereignty risks for the recipient government at each stage of policy process, and different levels of influence possible for the donor. As none of this occurs in a vacuum, there are consistent internal and external overt and covert forces from multiple levels influencing the policy agenda. As such, a different type of dialogue needs to occur at each stage of the policy process.

This paper does not recommend a specific form of policy dialogue as it is a continuous and adaptive process. It is a messy and a non-linear process. It may require several trips to the drawing-board as the political context changes. However to move closer to an understanding of what successful policy dialogue looks like, a broader understanding of the role of policy dialogue in policy change, changing the rules of the game, and policy implementation, is necessary. Section 3 starts to look at what successful policy dialogue might look like.

**Figure 3: Policy dialogue is a continuous process**



Source: Peter Bazeley 2011

## 3. What does Successful Policy Dialogue look like?

If AusAID undertakes policy dialogue, how can it be judged as successful? Will institutional factors and political decisions result in the realisation or prevention of policy objectives? This section considers institutional and political economy perspectives on the process of policy dialogue.

### 3.1 How do donors do policy dialogue?

ODE recommends that policy dialogue carried out by AusAID be robust, built on mutual respect, reflect a genuine partnership, and include a broad range of stakeholders (AusAID, 2010). But what exactly do the terms 'robust' and 'genuine partnership' mean in relation to policy dialogue? And if AusAID undertakes dialogue that fulfils these prescriptions, will that result in 'successful' policy dialogue?

A key problem with defining what successful policy dialogue looks like is that the broad goals of policy dialogue (improving development outcomes) may not correspond with the specific objectives of a dialogue (such as convincing a recipient government to agree to policy reform). For example, the International Monetary Fund (IMF) succeeded in its specific policy objectives with Argentina in 1991 when they agreed to structural adjustments in the economy. The development outcomes of this policy agreement, however, were not positive (IMF 2003). Furthermore, in many countries, there are rafts of good policies but the policies do not translate into pro-development outcomes. Should we judge the dialogue that led to those policy changes as failed policy dialogue?

In the analysis that follows, the factors preventing pro-development policies being adapted and implemented are examined. Strategies in policy dialogue which will facilitate the adoption and implementation of pro-development policies are then teased out using examples.

### 3.2 The political economy of policy dialogue

Political economy perspectives can help in understanding the vagaries and machinations of policy dialogue in aid. Political economy is an understanding of the prevailing political and economic processes in society: specifically, the incentives, relationships, distribution and contestation of power between different groups and individuals<sup>1</sup> – all of which greatly impact on policy dialogue outcomes.

Three approaches to understanding aid negotiations are outlined:

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<sup>1</sup> From the Political Economy Analysis paper produced for DFID by the Governance and Social Development Resource Centre (GSDRC), accessed at <http://www.gsdrc.org/go/topic-guides/political-economy-analysis>, 04.06.11.

- the principal-agent model
- game theory
- the actor-based approach.

**The principal-agent model** provides an insight into why recipient governments may agree to pro-development policies but never or only partially implement them. Dialogue between donors and recipient governments is understood as a dialogue where the donor (the principal) wants to act in ways that maximise the recipient government's (the agent's) utility. Tony Killick and his colleagues at the Overseas Development Institute (ODI) reviewed World Bank adjustment loans in 21 countries between 1980 and 1994 to see if the principal agent model of dialogue resulted in outcomes that were preferential for the donor, that is, that the recipient government implemented the agreed policies. They found that the incentive system (rewards and punishments) were generally inadequate to ensure that recipient governments would implement policy conditions. A key problem that arises in principal-agent transactions is that the principal suffers from lack of information about the agent's activities during the period covered by the agreement.

Another perspective to understanding the problems in pro-development policy adoption and implementation is based on **game theory**. Using this theory, the resources that the donor brings to the table are understood as bargaining counters in a game in which the donor seeks to influence policy in the recipient state, while protecting its own interests. More specifically, it is hypothesised that the less the donor needs the recipient (either as an outlet for funds or as a political ally), and the more that the recipient needs the donor (because of the gravity of its debt or foreign exchange position or because it does not believe it can borrow from other sources), the less room for manoeuvre the recipient has in negotiations and thus the more likely the recipient is to accept more heavily conditioned loans (Mosley, Harrigan et al. 1991).

There are large incentives for recipient government to agree to policies proposed by donors (for example, increased resources which may increase the recipient governments' political power, increased influence at the international level) These incentives combined with the power imbalance between players explain why recipient governments may be likely to agree to 'good' policies even though the intention or capacity to implement them is limited.

Gibson et al (2005) furthered understanding of the problems inherent in donor-recipient government negotiations by using the 'Samaritan's Dilemma' from game theory. The Samaritan's Dilemma predicts that once a donor decides to give aid, the optimal strategy for recipients is to put as little effort as possible into ensuring that the aid is well spent or that agreed reforms are implemented. The Samaritan's Dilemma assumes that donors are motivated by altruism and that in aid negotiations, the donor is better off helping no matter what the recipient does but the recipient is better off putting in low effort.

A third approach to donor-recipient dialogue examined is **the actor-based approach**. This approach is used by Whitfield and Fraser in their book *The Politics of Aid* (2008). In this model of donor-recipient dialogue, the actors (donor government, recipient government, sectoral ministry or agency, aid agency, civil society organisations in both donor and recipient countries, contractors and beneficiaries) are political agents partially constituted by the ideas

Game theory takes a 'deal-making' approach to understanding why 'good' policies are often not implemented.

and memories of the communities from which they come. This approach understands the conflicts of interest between donors and recipient governments as the legitimate substance of a political decision-making process which includes compromises, trade-offs and consensus-building. Dialogue is not understood as a strategic game influenced by the rational choices of the actors but as an interaction whereby the interests and the preferences of the actors are shaped by the economic, political, institutional and ideological contexts in which the actors and the negotiations find themselves. These contexts do not determine the outcome of negotiations but present donors and recipients with constraints and opportunities to consider in deciding what they think can be achieved through the negotiation. Whitfield and Fraser use the term '**negotiating capital**' to refer to the leverage that a negotiator is able to derive from these structural conditions. Briefly, the structural conditions that impact on recipients' negotiating capital include:

- Economic conditions: the degree of dependence of the recipient on markets in the donor country, the degree of dependence of the donor on access to resources being offered by the recipient, or degrees of indebtedness and aid dependence.
- Ideological resources: For donors, the purposes of their aid and the content of their policy preferences. For recipients, an ability to present a clear vision about where the country is going and recognition and respect of its sovereignty.
- Institutional conditions: the effectiveness of state institutions in devising and defending development strategies and policies, and the condition of the public service which runs these institutions.

Economic, ideological and institutional conditions influence the 'negotiating capital' of recipient governments and donors.

#### Question for the evaluation

To what extent does policy dialogue between AusAID staff and politicians and officials in partner countries reflect the dynamics described by the principal-agent model, Game Theory and the actor-based model?

## 3.3 Structural conditions and their impact on negotiating capital

### Introduction to structural conditions

Structural conditions are the internal and external factors that affect the success of policy dialogue. The factors are categorised using Whitfield and Fraser's categorisation. Those structural conditions that are examined in most detail are those that AusAID may be in a position to influence. Four types of conditions are considered below:

- economic
- ideological
- institutional
- organisational.

## Economic conditions

The degree of dependence of the recipient on markets in the donor country or the degree of dependence of the donor on access to resources being offered by the recipient will influence the negotiating capital that both parties bring to the table. Donors need to be particularly sensitive to situations where economic conditions result in the donor's capital being high and the recipient government's capital being low. This may result, for example, in a recipient government accepting arduous loan conditions to which they are not incentivised to adhere, in turn increasing the likelihood of 'failure' in policy dialogue.

## Ideological conditions

### Clarity of intent

Clarity of political intent is the starting point of the policy dialogue framework presented in Figure 3. From their case studies in Mali, the Democratic Republic of Congo, Tanzania and Vietnam, Molenaers and Renard (2008) found that donors who were achieving their policy objectives knew when to focus, on what and why. Molenaers and Renard identified several factors that contributed towards clarity of intent.

First, donors who were **internally harmonized** were more likely to be clear about what policies they were focusing on. Donors who have different ministerial departments that are responsible for different areas of development cooperation (for example, Japan and France) or where separate entities are responsible for implementation (for example, Gesellschaft für Internationale Zusammenarbeit [Organisation for International Development for the German Government] and Kreditanstalt für Wiederaufbau [Reconstruction Credit Union]) might be expected to find internal harmonization more difficult. Molenaers and Renard found, however, that some of these donors were making real efforts to harmonize across structures. For example, Gesellschaft für Internationale Zusammenarbeit and Kreditanstalt für Wiederaufbau engaged in separate dialogues representing Germany but regular meetings at the levels of the diplomatic representation ensured that these individual contributions were part of a coherent strategy of German development cooperation.

First, you need to be clear about the purpose of policy.

Second, donors who were **decentralised** were able to achieve higher levels of clarity of intent. In the case of the European Commission aid programming, Molenaers and Renard found that decisions on budget support were essentially made at headquarters, sometimes against the advice of the field delegation.

Third, clarity of intent within a donor agency tended to correlate with a higher degree of **specialisation**. If more than one sector or theme was being selected, the donor tried to see how the two sectors could be combined so as to reinforce each other.

Some argue that donors should be more upfront about the political intent of their dialogue (for example, Frenken et al 2010; Whitfield and Fraser 2008). Whitfield and Fraser argue that where donors do not wish to allow aid recipients a free hand in deciding what to do with aid, they should cease using the word 'ownership' and admit to and justify their own attempts at influence.

Just as clarity of intent will increase negotiating capital of donors, clarity of intent by recipient

government staff will also increase their negotiating capital. The Botswana and Ethiopian governments tend to demonstrate clarity of intent and in their evaluation of aid negotiations in Africa; Whitfield and Fraser (2009) concluded that both countries had negotiated better aid deals than other Sub Saharan countries.

### **Box 2: Zambia – avoiding clarity of intent**

In an effort to avoid having to clarify intent, there is a tendency for aid agencies to look for a technical rather than a political route to engaging with government, as a passage from the recent review of Norway's development support to Zambia highlights.

*'The evaluation team found that Norway, in line with the approach taken by other donors, has tended to focus on technical issues in its formal dialogue with government. It has been cautious in addressing issues which could be seen as overtly political, where the legitimacy of its engagement could be challenged. Rather it has focused more on building capacity for Zambian organisations, both within government and with civil society partners, in the expectation, or perhaps hope, that this will both build challenges to abuse and develop champions for the poor.'*

Source: Norwegian Agency for Development Cooperation 2007.

### **The ideology of actors**

The ideology of both donor staff and recipient government representatives will influence possibilities for policy change. For example, the organisational ethos of some development agencies is one of experts bringing solutions. In an interview with a representative from the World Bank, it was emphasized that humbleness was a key ingredient to successful dialogue and increased legitimacy. Too often, it was felt that World Bank staff thought they knew better than their counterparts in recipient governments and this resulted in impasses. It was mentioned during two interviews that recipient governments can be suspicious of donors' ideology, particularly donors pursuing a neo-liberal agenda.

Equally, the ideology of recipient government representatives will affect how dialogue is conducted. As donor policies, particularly economic policies, tend towards neo-liberal, governments that favour socialist or state-led development solutions will tend to clash on key policy issues. In Ethiopia, for example, where the government tends to be anti neo-liberal, the government maintains control over approaches to agriculture, economic management, the pace of liberalization and the space for civil society. Even though the government is committed to MDG targets and to improving basic social services, the degree of control the government maintains limits the opportunities for donors to influence policy (Whitfield and Fraser 2009).

### **Evidence-based dialogue**

Although it is logical that evidence would contribute to increased negotiating capital, there are several reasons why donors and recipient governments often find it difficult to use empirical analysis to support their negotiations. Fundamentally, there is a dearth of large-scale

comprehensive empirical analysis in most developing countries (Jones et al. 2008; AusAID 2009). Furthermore, policy research carried out in Africa does not necessarily relate to policy issues: Omamo and Farrington (2004) concluded that most policy research on African agriculture is irrelevant to agricultural and overall economic policy. This dearth of empirical analyses means that policy dialogue is often captured by ideological arguments.

Jones et al (2008) describe systemic barriers to institutionalising evidence-informed policy processes at the donor-recipient interface. Owing to a lack of accountability or formal mechanisms for the integration of scientific knowledge into policy, science is often used selectively at the discretion of policy-makers. This results in a situation where policy priorities often drive the usage of research rather than research stimulating policy recommendations, raising the likelihood that research will be carried out to provide proof for a hypotheses rather than to test hypotheses.

Finally, a substantial amount of research in the poorest countries is funded by international donors, which raises questions about bias, whose priorities, and a persistent western interpretation of developing countries' problems.

## **Institutional conditions: examining the dynamics of the interaction between donors and recipient governments**

### **Legitimacy of donors and recipient governments**

The level of legitimacy of both donor and recipient governments will affect the negotiating capital of both actors. Any donor entering into negotiations with a recipient country on any topic must have a degree of legitimacy to do so.

Throughout the 1980s and 1990s, policy dialogue tended to focus on convincing recipient governments to agree to conditionalities designed to influence economic policy. In the late 1990s, donors began to realise that this approach was having significant negative impacts in terms of aid effectiveness and, in many cases, was detracting from their legitimacy. A UK government policy paper in 2005 noted:

*'[w]e believe that it is inappropriate and has proven ineffective for donors to impose policies on developing countries ... developing country governments are becoming more accountable to donors than to their own people' (DFID, British Foreign and Commonwealth Office & HM Treasury 2005)*

Donors are now using the concepts of 'ownership' and 'partnership' to inject a renewed legitimacy into their activities. Ownership is discussed in more detail later in this section; suffice to say at this stage that (i) overly coercive dialogue may detract from a donor's legitimacy, and that (ii) facilitating increased degrees of control by the recipient government over the design of policy may serve to increase the legitimacy of donor engagement.

Donor staff also need to think about formal and informal relationships with recipient governments. In interviews with DFID staff, it was posited that DFID gained its legitimacy not just from its historical connections with many of the countries in which it works, but also the experience and continuity of its staff. In particular, the length of time donor staff spend in-

Legitimacy rests partly on the present experience and knowledge of agency officials, as well as on the quality of relationships with recipient country staff.

country influences their ability to build relationships with key government representatives. As donor organisations tend to be characterised by high staff turnover (particularly in fragile and conflict-affected environments), stakeholder relationship systems need to be strengthened to mitigate the potential loss of influence when a change in staff occurs.<sup>2</sup>

The legitimacy of the recipient government also poses a conundrum for donors, particularly in fragile and post-conflict states. In many fragile states, governments may not represent the majority and democratic processes may have been captured by political and economic elites. Should donors be dialoguing with such governments and will there be a tendency for donors to structure the relationship in a principal-agent way? (That is, where the donor acts to maximise the fragile government's utility.)

### **Acknowledgement of political risks**

There is some degree of risk involved in engaging in policy dialogue, both for the donor and for the recipient government. How both donor and recipient government approach and manage this risk will shape the potential and the outcomes of policy dialogue.

While there is much focus on the financial risks of budgetary agreements, there is less focus on political risk for the donor. Because policy reform results in winners and losers, this can pose risks to donors' reputations, even after some years have lapsed. For example in Bolivia reform to the water sector, supported by the World Bank in the early stages, resulted in civil unrest.<sup>3</sup> Furthermore, the slow pace of most policy dialogue and subsequent reforms means that it is not possible to attribute 'successful' changes to any one intervention or donor activity leaving the donor struggling to demonstrate value for money to its electorate.

From the recipient government's point of view there are two key risks associated with policy dialogue with international donors. First, changes in the allocation of resources as a result of policy reform create winners and losers. Recipient governments do not want to be associated with reforms that will result in large numbers of losers. If the losers form part of well-connected and powerful organisations, the risk to the recipient government is even greater.<sup>4</sup> Second, policy debates raise the possibility of more numerous and potentially conflicting demands being placed on decision-makers and increase the risks of alienating supporters (Brinkerhoff and Kulibaba 1994). Donors entering the diversity of operational and incentive structures within a recipient country also add to the complexity of those structures and can be perceived as an inconvenience for that government and other donors.

Acknowledgement of the risks by both parties may actually benefit the policy process. For one reason, this would enable effective communication with constituencies to manage potential backlashes. Lack of effective communication with stakeholders in the water sector reform project in Bolivia was identified as one of the reasons the reforms were associated with civil unrest (World Bank 2008, p. 40).

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<sup>2</sup> This problem was highlighted in the evaluation of policy dialogue within DFID (Watson and Pierce, 2007).

<sup>3</sup> From the World Bank report on 'Political Economy of Policy Reform: Issues and implications for Policy Dialogue and Development Operations', 2008, p. 40.

<sup>4</sup> Mancur Olson's theory of collective action (1965) predicts that policy reforms will be blocked if they are not supported by the well organized groups in society.

### Political structure of recipient state

There are many ways of classifying political structures. Many political economy analyses refer to 'neo-patrimonial', 'authoritarian' and 'fragile' to describe the relative strength and organisation of different states.<sup>5</sup> There will be different challenges associated with policy reform in authoritarian states compared with democratic states. The decision-making structures (and hence points of entry for policy dialogue) will differ between authoritarian and democratic states: officials and even ministers may have very different levels of discretion over what issues are taken up and over their ability to 'drive' policy implementation.

Crises can provide an opportunity to pursue difficult transformational reforms.

While the relative strength and organisation of states might not necessarily predict the likelihood of policy change and implementation, the degree of fragility presents two possibilities. On the one hand, the fragility of a state may limit the reach of policy implementation; on the other hand, fragility may increase the possibility for 'extraordinary politics' and windows of opportunity for pursuing policy dialogue and fundamental (transformational) change. Case studies indicate that policy-making differs remarkably according to whether the political situation is stable and the government is working according to business as usual, or whether a crisis is precipitating rapid policy change (Thomas and Grindle 1994). Thomas and Grindle found that when policy elites believe that a crisis exists, reform issues are more likely to emerge and be considered. This is due to the belief held by policy elites in crisis situations that they must do something about the situation or face grave consequences in the short term. Circumstances of crisis alter the dynamics of decision-making not only by raising the political stakes for policy elites but also by altering the identity and hierarchical level of decision makers. In severe crisis, officials from lower levels may suddenly find themselves in a position to make sweeping policy changes. Although reform can happen during politics-as-usual, the consequences of inaction are not considered immediately threatening to the decision makers or the regime. As a result policy reform is less incentivised and any reform tends to happen incrementally.

A key lesson for donors then is to recognise that policy change during politics-as-usual is likely to be a slow process. Conversely, political crises should be recognised as opportunities for policy dialogue which could result in express policy changes.

#### Box 3: With whom should donors dialogue?

In case studies focusing on population policy from 13 countries, Grindle and Thomas (1991) found that the chief executive (that is, the president or prime minister) was the principal actor in changes in population policy and that this person's attitudes, values, positional resources and training were frequently central to the introduction of – or failure to introduce – reform initiatives. Ministers and their technical corps acted as 'critical filters' through which initiatives flow. In politics-as-usual circumstances, policy elites played important roles in selecting the moment for reform, shaping the terms of debate and generating consensus about the need for policy change. Their views generally determined whether or not the issue was placed on the agenda.

Source: Grindle and Thomas (1991).

<sup>5</sup> New thinking by the Power and Politics Group at the Overseas Development Institute (ODI) has produced evidence that a centrally organised patrimonial state can create conditions conducive to development (see Booth and Golooba-Mutebi 2009).

## Organisational conditions: focus on internal factors in donor agencies

### Staff incentives/ disincentives

The emphasis within International Financial Institutions and bilateral donors on disbursement is a major disincentive to engage in long and complex policy dialogue. Mosley et al (1991) note:

*'[World Bank] loan officers ... are under intense pressure to meet country commitment targets whatever the negotiating posture adopted by the recipient government, and to meet country disbursement targets however unpromising the government's subsequent implementation' (p. 72).*

In her investigation into whether the current structure of aid negotiation and allocation can reform institutions, Mary Shirley (2005) argues that, in general, donor staff are not rewarded for institutional change as it is hard to measure or affect. Rather, rewards are geared to new projects. As a result, donor staff have little incentive to push reluctant governments to enact difficult institutional change. Thus development becomes less about transformational change and more about quick results and transactional outcomes (Shirley 2005; Natsios 2010).

In an assessment of the Swedish International Development Cooperation Agency (Sida), Ostrom et al (2002) found that rewards or accountability are rarely related to the success or failure of the projects upon which a desk officer has worked. Conversely Ostrom et al found that clear incentives do exist to signal to others that one *'is clever and able to write good reports'* (p. 159).

### Staff skills and knowledge

In-depth knowledge of the political system of a country is needed for effective policy dialogue. Aid staff may not have sufficient time to understand completely both the formal and informal rules of a political system, since they are outsiders and are rotated every few years.

In transforming from a development assistance agency to a full department with a cabinet minister, DFID now look for specific process skills that enable its staff to influence at policy level. An extract from the DFID key competencies matrix is presented in Figure 4 and gives an indication of the skills deemed useful for policy dialogue, at different levels of seniority.

**Figure 4: Extract from DFID key competencies – behaviour indicators of staff**

**Behavioural Indicators**

**Level IV**

- Develops relationships with partner/stakeholders ensuring that DFID is a respected customer and provider\*
- Creates an environment to deliver shared policy outcomes on the ground
- Lobbies partners/stakeholders to achieve outcomes
- Influences external partners/stakeholders relevant to our business

**Level III**

- Informs, consults and influences partners/stakeholders using a range of communication mechanisms\*
- Engages with relevant experts to gather and evaluate evidence\*
- Shares and implements good practice with internal and external peers\*
- Works with senior partners/stakeholders

**Level II**

- Proactive in providing and seeking support from expert colleagues\*
- Engages effectively with partners/stakeholders to better understand their requirements and develop appropriate solutions/improvements\*
- Raises difficult issues with partners/stakeholders with a view to positive resolution\*
- Proactive in building a rapport with a diverse range of people\*

Source: DFID 2011.

**Question for the evaluation**

How do recipient governments currently perceive AusAID staff?

**Nature and relevance of donor instruments**

Many of the features of the current aid architecture detract from the negotiating capital of both donors and recipient governments. The key features examined here include the short term nature of the project approach, harmonization and lack of flexibility in a program's implementation.

The objectives of development (such as eradication of poverty and provision of basic services) require tools of a long-term nature and a capacity to program projects in relation to a long-term timeframe. As noted by Triulzi and Montalbano (2000), the timetables that characterize most industrialized country governments are of medium-short run. Thus, rather than pursuing policies consistent with the long term objectives of development, governments of industrialised countries choose tools which are able to produce immediate political and economic effects even if they are incongruous with the long term objectives of development. Triulzi and Montalbano (2000) understand this problem as a '**time inconsistency problem**' in development cooperation.

It has been argued that the **harmonisation** agenda may result in increasing numbers of donors participating in policy dialogue (Molenaers and Renard, 2008).<sup>6</sup> On the one hand, this

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<sup>6</sup> Briefly, Molenaers and Renard's argument is that donors are practicing aid modalities which are increasingly characterised by reduced earmarking. For example, budget support of one donor is mixed with that of other donors and with the fiscal resources of the national treasury. Thus the impact of the contribution of one donor becomes increasingly difficult to isolate and this reduces visibility for the donor. Policy dialogue offers donors the chance once more to increase their visibility and influence. Molenaers and Renard argue that this perverted incentive of visibility in policy dialogue results in too many donors sitting around the negotiating table. As Molenaers and Renard conclude: 'Donors no longer plant

means that medium-sized donors have an opportunity to gain influence in an arena that was once dominated by the World Bank, IMF and DFID. On the other hand, too many donors, all with slightly different viewpoints, may not be able to act decisively together with consensus gravitating to the lowest common denominator (Molenaers and Renard 2008). From the recipient government's point of view, harmonisation reduces policy space, in that it reduces the opportunity to 'shop around'. China's increasing role in negotiations with African countries, and elsewhere, is generating opportunities for those countries to claw back their policy space. (See Oya 2006, for a fuller discussion).

Often development planning is done with **little flexibility** or openness to mid-course corrections in implementation, and too much reliance upon pre-identified targets and fixed disbursement triggers, to allow space for effective policy dialogue during the reform process. There is little space for relationship-building (see Eyben 2010), which is central to the practice of policy dialogue.

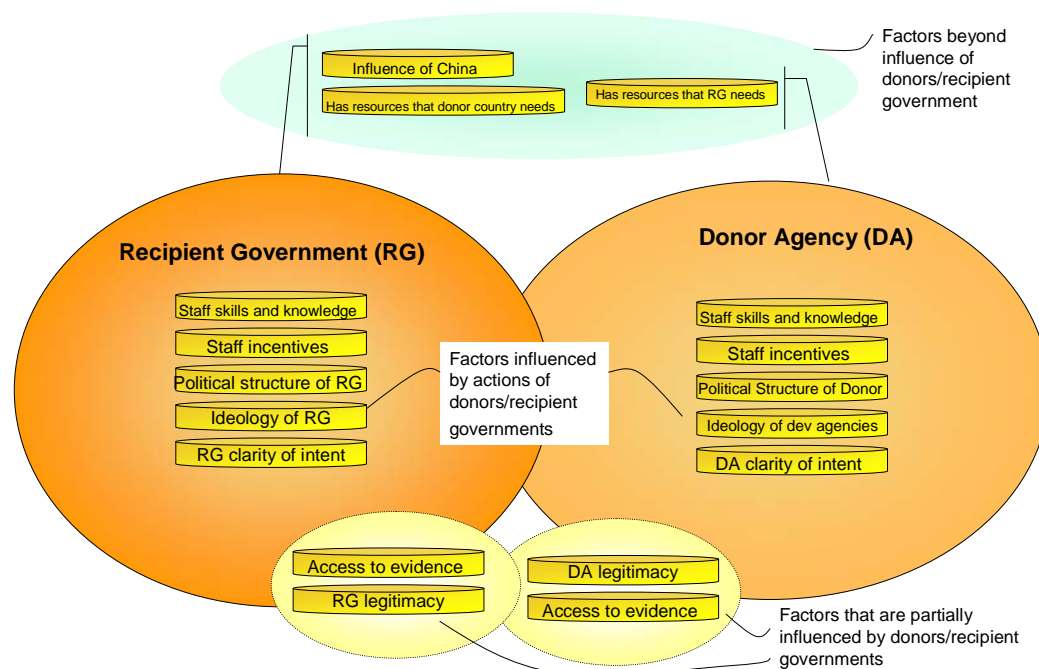
#### **Box 4: How does China do policy dialogue in Africa?**

As China has a broad definition of foreign aid, it is challenging to evaluate concisely the aid policy of the Chinese Government in Africa. First China does not have an independent aid agency, resulting in several ministries negotiating with African governments. Some have noted a lack of communication between different Chinese ministries (Wenping, 2009). Second, many describe China's aid agreements as apolitical and without conditionalities. However, the 'One China' policy and use of Chinese companies in implementation of projects are forms of political and economic conditionality. Third, and possibly of most interest to AusAID, is the focus on engagement with government actors and converse lack of engagement with non government organisations and multilateral arrangements. China's engagement with Africa has been termed 'a collaborative state-business approach to foreign policy' (Davies, Edinger et al. 2008).

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their flag on projects: they plant it on the negotiating table' (p. 19).

**Figure 5: Factors which affect the negotiating capital of donors and recipient governments**



Source: theIDLgroup 2011.

Figure 5 depicts the economic, ideological and institutional factors which affect negotiating capital of both donors and recipient governments. Some of these factors (for example, China’s foreign policy strategy, natural resources) are external in that they are beyond the direct influence of actors in dialogue. Other factors such as legitimacy and access to evidence can be influenced to a certain extent by the actors but may be also influenced by actors outside the dialogue. The factors listed in the centre of the orange circles are considered internal or under the influence of the actors involved in the dialogue. From the donor’s point of view, the most obvious way of increasing success in policy dialogue is to try and improve those factors within its circle of influence so that they maximise their negotiating capital. As outlined in section 3.2, however, policy dialogue with large power asymmetries may not lead to pro-development outcomes. The next section examines how donors should work towards ‘successful’ dialogue.

### 3.4 Where was that definition of ‘successful policy dialogue’?

What can we deduce from these insights into political economy analysis about what successful policy dialogue looks like? Both the principal-agent perspective and the game theory approach locate the problem in the power imbalance between donors and recipient countries. New developments in aid effectiveness have tried to address the power imbalance with the principles of ‘ownership’ and ‘mutual accountability’. Does this imply that policy dialogue that includes high degrees of ownership or a level of mutual accountability will be more successful than dialogue that does not? As core principles of the Paris Declaration on Aid Effectiveness, it could be argued that ownership and mutual accountability are useful

concepts for assessing what successful dialogue looks like.

### **Defining ownership**

At a conference on the implementation of the Accra Agenda for Action, Beier (2009) proposed that the concept of ownership stems from the presumption that people or societies can only develop if they see themselves as subjects of that development and therefore take responsibility for their own development. In theory, this concept of ownership is consistent with the emphasis on the centrality of partner countries' ownership of their development process in the 2008 ARDE.

*'In any development context, for assistance to be effective, both the partner country and its development partners need to share a common view of the assistance needed and of the political and institutional constraints that will affect it' (AusAID 2009).*

In practice, achieving this kind of ownership is tricky. The idea that donors and partner countries will share the same understanding of what 'development' and 'institutional reform' means is a real challenge.

In their review of the political economy of aid, Whitfield and Fraser (2009) propose a definition that restricts ownership to governments and does not require agreement by all members of a group. They define ownership as:

*'[t]he degree of control recipient governments are able to secure over implemented policy outcomes' (p. 4).*

Ownership is, however, also often used to mean 'commitment to policies'. In his analysis of country ownership of reform program, Johnson (2005) points out that there is a distinction between a right to choose the policies to be implemented (control) and an obligation to accept responsibility for policies to be implemented (commitment). It could be argued that the choice to control and the choice to commit lie at opposite ends of an ownership scale, with choice to control indicating higher levels of ownership and choice to commit indicating lower levels of ownership. Indeed the inclusion of 'ownership' in the Paris Declaration on Aid Effectiveness evolved, in part, from the finding that low levels of ownership inherent in the implementation of imposed conditionalities (choice to commit) did not gain traction with recipient governments.

### **Donor approaches to policy dialogue and ownership**

In this section, donor approaches to policy dialogue (conditionality, genuine partnership and mutual accountability) are analysed in terms of the degree of ownership they allow for recipient governments. Figure 6 depicts the various donor approaches to policy dialogue on a scale from low levels of ownership (choice to commit to policy) to high levels of ownership (choice to control policy) plus the forces that prevent donors achieving the higher degrees of ownership embodied in the 'genuine partnership'<sup>7</sup> and mutual accountability approaches.

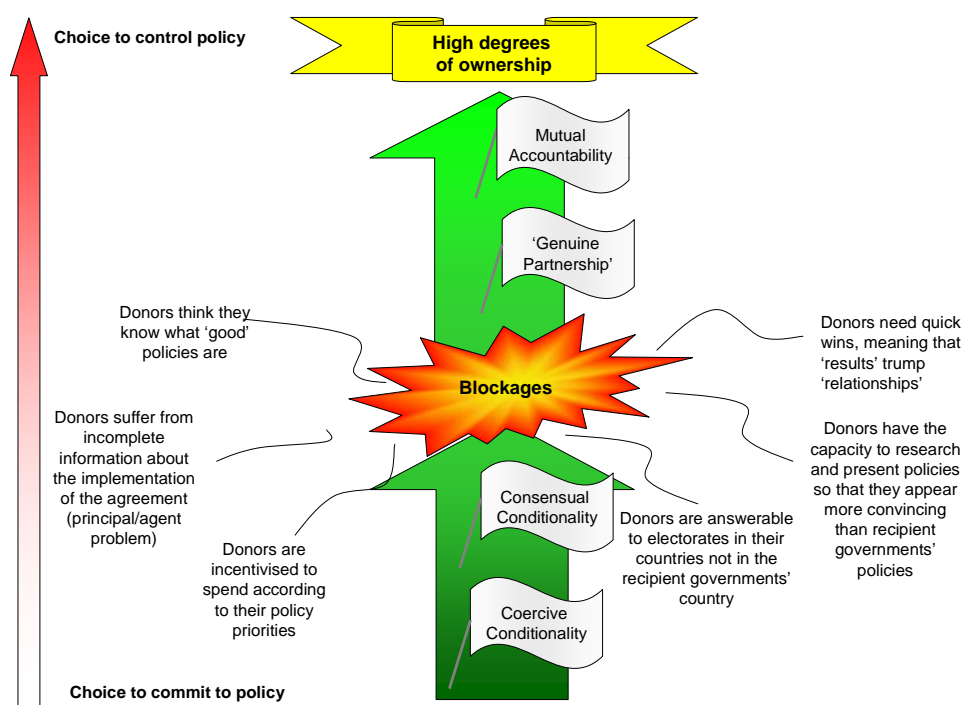
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<sup>7</sup> Morrow (2005) defines 'genuine partnership' as dynamic interaction between the donors and recipient government with donors trying to persuade the government to undertake certain reforms and recipient governments equally trying to

Mutual accountability and coercive conditionality are also located at opposite ends of the ownership scale with coercive conditionality representing only the choice to commit to a policy while mutual accountability represents an opportunity for the recipient government to exert control over the implementation of policy.

High degrees of ownership are equated with high degrees of control by the recipient government but ownership and donor influence should not necessarily be understood as mutually exclusive. The process of designing and implementing policy can be influenced by donors but controlled by recipient governments. There is a certain point, however, in this balance where increasing influence decreases the opportunity for the recipient government to design and implement.

**Figure 6: Forces preventing donors achieving high degrees of ownership in aid agreements**



Source: theIDLgroup 2011.

### Box 5: Conditionality versus mutual accountability

During the 1980s and 1990s, donors tended to rely on what is commonly termed 'conditionality' or the use of conditions attached to a loan, debt relief, bilateral aid or membership of international organisations, typically by the International Financial Institutions and donor countries. An inherent problem with the conditionality approach is the *ex-post* nature of conditionality in which conditions would be adhered to after the recipient government received the aid. As outlined in section 3.2 this approach is problematic and has been described by some as 'futile' (see Molenaers and Renard 2008, p. 12).

persuade the donors to change their initial ideas and positions.

### Box 5: Conditionality versus mutual accountability

Recognizing these problems, donors started to try and reduce the coercive element of aid negotiations by increasing the degree of recipient government ownership. The concept of 'consensual conditionality' was coined (Morrow 2005) which can be defined as conditionality for which there exists a genuine measure of ownership on the recipient side. Consensual conditionality is a way for formalizing or locking in a reform that has already been agreed.

The concept of mutual accountability required donors to move one step further along the scale of ownership. Using agreements containing mutual accountability clauses is a way to move away from the problems of the principal-agent model of accountability in conditionality towards an agent-agent model of accountability. Essentially, in agreements with mutual accountability clauses, donors are also answerable to recipient governments and in a sense become agents themselves. Ideally, mutual accountability should involve 'a collaborative process that involves partnerships between donors and recipient governments pursuing shared aid effectiveness and development objectives' (Steer and Wathne 2009). The commitment of stakeholders to the process is maintained, largely, through positive incentives and the desire to protect reputation.

### Ownership – is that what donors really want?

The power imbalance between donors and recipient governments mean that engaging in 'genuine partnership' is difficult for donors. Rather than a dynamic two-way process, policy dialogue often happens because donors insist on it (Brinkerhoff and Kulibaba 1994; Molenaers and Renard 2008). Molenaers and Renard also found that if donors are advocating 'dialogue', it is usually not because they want to learn from recipients but because they want recipients to listen to them. Findings from a study into what donors can do to support country ownership, carried out in eight countries,<sup>8</sup> indicate that while many donors start out with a commitment to ownership, as soon as there is some disagreement over policy choices they tend to redefine ownership as commitment to their preferred policies (De Renzio, Whitfield et al. 2008).

'Many donors start out with a commitment to ownership, but as soon as there is some disagreement over policy choices, they tend to redefine ownership as commitment to their preferred policies'.

### Box 6: Unintended impacts of increased ownership – focus on Sida

The Swedish International Development Cooperation Agency (Sida) made concerted efforts to reduce power asymmetries in bilateral relations with recipient governments by vesting project ownership with particular recipient country ministries and bureaucratic agencies. This investment in particular ministries and agencies resulted in some ministries being much better resourced than others. This exacerbated already acute power asymmetries in the recipient's political economy.

Source: Ostrom et al 2002.

<sup>8</sup> Ghana, Mali, Mozambique, Rwanda, Tanzania, Zambia, Ethiopia and Botswana.

## Question for the evaluation

What does 'ownership' mean for AusAID?

### Do donors want to put partners 'in the driving seat'?

Ceding exclusive control over aid funds to recipient governments can be very difficult for donors. Development ministers in donor countries are accountable to their electorates and to parliament for use of public funds. If the wishes of the recipient country contradict what the donor's electorate would approve of, donors will have difficulty agreeing. Donors do have an option not to fund but as they are incentivised to spend (Mosley, Harrigan et al. 1991; Shirley 2005; Molenaers and Renard 2008; Unsworth 2008), not spending is almost as bad as agreeing to an initiative that contradicts their mandate. In this sense, donors need to define and push their own agenda in policy dialogue to avoid the situation where recipient governments are tabling undesirable policies or public expenditure choices. Although national policy makers are encouraged to choose policies that reflect national priorities and to engage in civil society formulation, this process is being undercut by the managerial techniques and trade and security policy priorities of donors (Meagher 2008).

Most current policy dialogue being carried out by donors with recipient governments could more accurately be described as dialogue which aims for a 'measure of ownership' on the recipient side (Morrow 2005) wherein donors push for policy reform for which there may not be universal applause but for which there are at least some powerful supporters.

#### Box 7: A Note on ownership and public finance management

ODE evaluation findings suggest that Australian technical assistance has focused largely on improving budget processes, with little policy dialogue on partner government spending priorities and how the Australian aid program can best support these priorities (AusAID 2010). ODE recommends that the first question that should be asked in effective policy dialogue is 'how will all of the resources available for development (from the government and its development partners) be allocated and used?' The literature on policy dialogue indicates that there is a tendency to conflate ownership with budgetary agreements (Frenken, Jacob et al. 2010).

Negotiations over the allocation of the budget are a highly political process, and the level of influence that a donor exerts will impact on how the recipient government experiences ownership. A budgetary agreement that is pro-development and in line with the donor's priorities may not necessarily be one over which the recipient government had a high degree of control.

### Policy dialogue in the real world

If success is measured in terms of the degree of influence that the donor exerts, success would be easy to define. As outlined above, however, agreements to which recipient governments sign-up under donor pressure do not necessarily result in the most efficient aid investment. Political economy analysis indicates that part of the problem lies in the power imbalance between donor and recipient government. The concepts of ownership and mutual accountability seemed to represent methods of increasing the recipient country's power.

Unfortunately, political and economic forces prevent donors from ceding control to recipient governments and as such prevent them from granting recipient government's full ownership.

It is useful at this stage to return to the spatial representation of policy dialogue as depicted in Figure 2. By locating policy dialogue along the axes of proximity to the political sphere in the recipient country and the political agenda of the donor, the intent of dialogue can be clarified. The higher the political agenda of the donor, the more useful it is to define the success of policy dialogue in terms of influence exerted.

However in cases where the overt political agenda of the donor is low and the focus is on development outcomes, the degree of influence exerted may not be a useful measure of success. In these cases, successful dialogue can be defined in terms of the power symmetry between donor and recipient government. More specifically, effective policy dialogue occurs when the negotiating capitals of each party are comparable. In the context of aid negotiations, effective policy dialogue may also include activities which aim to increase the negotiating capital of recipient governments. Somewhat counter-intuitively, this may mean that a recipient government refusing to agree to a donor driven policy may represent 'successful' dialogue.

## 4. Measuring the Impact of Policy Dialogue

In this section, the challenges associated with evaluating the impact of policy dialogue are outlined. This is followed by a brief look at how other donors have thought about measuring the impact of policy dialogue. Finally some suggestions are made for how AusAID might approach monitoring and evaluation (M&E) in policy dialogue.

### 4.4 Challenges in monitoring policy dialogue

Measuring the impact of policy influencing work presents a particular set of challenges. First, there is the classic attribution problem, or the difficulty in determining the links between policy influencing activities and outputs and any change (or stasis) in policy. While some policy changes can be fast and have easily detectable impacts, most policy change is incremental, highly complex and often proceeds in a nonlinear and unpredictable fashion with its process shaped by a multitude of interacting forces and actors. This makes it almost impossible to predict with confidence the likely consequences of a set of activities on policy (Jones 2011). As Jones (2011) noted, methodologies such as experimental and quasi-experimental impact evaluation that can function to analyse attribution in other circumstances are unsuitable for policy influencing work because it is difficult to establish a plausible counter-factual.

Second, success is somewhat difficult to define and may be altered along the way. Policy changes tend to occur over long timeframes that may not be suitable to measurement in the usual rhythms of projects and evaluations in aid agencies.

These problems have emerged within AusAID in relation to monitoring policy dialogue. Evaluations carried out by ODE for the 2009 ARDE found that there is a lack of clarity within the aid program about how to measure performance of policy dialogue initiatives carried out by AusAID beyond the outputs of a portfolio of activities. That is, program areas tend to recognise or articulate success only in terms of whether the majority of individual activities in their portfolio are performing well — not in terms of, for example, the performance of policy dialogue and country-level objectives.

Developing a theory of change, or a model of how policy-influencing activities are envisaged to result in desired change (either in policy or in people's lives), is a key way of attempting to address these problems (see section 2.2). Ideally a specific theory of change should be drawn up for the particular policy dialogue that is to be monitored and evaluated. Different influential factors (for example availability of evidence, legitimacy and ownership) will have very different effects depending on the structure of the recipient government. Given the number of extraneous factors in policy dialogue, any evaluation of policy dialogue will have to be more process-based than results-based.

## 4.5 How do other donors measure the impact of policy dialogue?

The short answer to this question is that they do not. The Canadian International Development Agency (CIDA) does not document their policy dialogue activities nor do they have specific guidelines or models (Watson and Pierce 2008). The World Bank encourages its staff to monitor their success in advocacy as part of the self-assessment process, but formally there is no procedure for cost-benefit analyses or tracking influencing strategies (ibid). Likewise, at DFID, there are no formal mechanisms for tracking the outcomes of policy dialogue (Watson and Pierce, 2008).

Nonetheless, it has been found that existing evaluation tools can be used to evaluate policy dialogue. In 2008, DFID carried out a pilot study to assess whether it was possible to bring policy dialogue within the scope of their current Project Cycle Management system. The researchers asked policy teams to record their policy dialogue efforts by articulating the overall strategy and intended outcome and then monitoring their activities in relation to the intended outcome. Policy teams were also asked to develop a concept note and logframe.

The researchers found that while there were some challenges associated with using the logframe approach to monitoring policy dialogue initiatives, the challenges were more related to lack of knowledge in how to use them rather than an inherent problem with the logframe as a monitoring tool for policy dialogue. In fact those that were already familiar with the logframe found it to be a useful tool for strategizing, monitoring and sharing their approach with their colleagues (Watson and Pierce 2008). The traditional tools and techniques of project management were also considered valuable tools for managing and planning policy dialogue initiatives, including techniques such as scenario planning, outcome mapping, timelines, After-Action Reviews and project management software. In relation to identifying the level of impact against which outputs should be recorded, it was recommended by some interviewees in the study that policy dialogue impact should relate to reporting against Departmental Strategic Objectives. Watson and Pierce conclude that while there are some indications of a move away from models of working characterised by spend towards new models characterised by policy dialogue, established concepts of project cycle management remain suitable.

## 4.6 What does all this mean for M&E of policy dialogue in AusAID?

Crucially, a theory of change has to be developed for how the activities associated with policy dialogue will bring about the desired change. Using logframes to map causal chains in policy dialogue work worked well for DFID staff who had prior experience in using them. One of the key challenges in using causal chains to evaluate the impact of policy dialogue is the identification of good indicators. A decision should be made at the start about whether the impact of dialogue will be measured at the level of policy change or whether the impact of

dialogue throughout the policy process (for example, change in institutions) will also be measured.

Alternatively, outcome mapping based on the actor centred theory of change could be used to monitor the change in behaviour of ministry officials and ministries during and following policy dialogue. The RAPID Outcome Assessment (ROA) is a combination of an outcome mapping tool and the RAPID group's framework for understanding the influence of research on policy. The tool helps assess the contribution of a project's research and other activities to policy or the policy environment (see Hovland 2008). This is done by describing the context, the project, the key actors and their behaviour, how this changed over time and what influence the project (dialogue) had over key behaviour changes.

Another tool which AusAID could use to evaluate the impact of its policy dialogue is episode studies. Episode studies involve tracking back from a policy change to understand the multitude of forces, events, documents and decisions involved in producing that change.

## 5. Lessons from Other Agencies

DFID sought to transition into a policy-capable organisation. How did DFID fair in the transition and was it successful?

### 5.1 Why does DFID make a good case study?

*‘Ten years ago, DFID was considered a middle-of-the-pack development agency. Today, it is generally considered to be the best in the world. What drove the difference? In a word: leadership’ (Greenhill 2005).*

Since its establishment in 1997, DFID has developed a reputation as a leader in development thinking and practice. DFID made several transitions during this time. Is DFID’s high profile in international development related to its proficiency in policy dialogue? Through a review of reports and semi-structured interviews with selected current and former officials from different aid agencies, an analysis of DFID’s transition to a more policy-capable organisation is illustrated in the next section.

### 5.2 Case example: DFID 1997-2011

#### Institutional Changes

##### The transition from ODA to DFID

DFID was established by the incoming Labour Government in 1997. At that point, Labour had been out of office for four consecutive general elections. Tony Blair led the opposition under the banner of ‘New Labour’ and focused on a new set of policies.

While the Labour party was still in opposition, it created the ‘Britain in the World Policy Commission’ which reviewed Labour’s policies on a broad range of topics including foreign policy, security and development. The commission recommended the creation of a separate government department responsible for international development issues across the government, a focus on the poorest countries and giving less weight to commercial and strategic considerations in overseas aid.

During this time, new policy spaces were opening. In the past, foreign assistance programs had been influenced by Cold War politics, during which strategic and security interests had affected governments’ choice of which countries to support and how.

After Labour’s win, the aid portfolio was offered to Clare Short. She was adamant she would not accept the position unless she was given a cabinet post with overall responsibility for international development policy and not just aid. The Overseas Development Administration was thus elevated from being an arm of the British Foreign and Commonwealth Office to an independent ministry, the Department for International Development, with its own minister enjoying cabinet status.

### **Leadership: Clare Short**

Many interviewees recalled Clare Short as being instrumental in changing the fundamental culture of how the UK (and others) understood international development.

Short brought about three major changes to development policy in 1997.

1. Poverty reduction was made an early, and central, focus of aid and development policy. For example, the Aid and Trade Provision was abolished in the 1997 White Paper and was replaced by the possibility of using mixed credits that met development criteria but still allowed aid to be tied to British contracts. In the 2000 White Paper, the UK aid was completely untied.
2. Policy coherence was introduced as a concept. It was acknowledged that managing aid spending was only one way of achieving development and that the new department had a legitimate voice in the formulation of government policy in other areas. To serve this agenda, DFID underwent major structural and staffing changes, expanding, deepening and professionalising the role of its Policy Division and creating a cadre of 'policy capable' staff.
3. DFID became an independent government department mandated under a new International Development Act which ensured that the UK's development policy focused solely on development without interference from the UK's other political interests (Barder 2006).

### **Pathways to increasing policy capabilities**

The changes which resulted in DFID staff becoming more policy capable took place at several levels.

As DFID now was a ministry in its own right, its staff had access to higher levels of power and became part of more senior government fora and mechanisms.

To cope with the need for policy-influencing skills, DFID adapted its recruitment policies and started to hire people who could demonstrate capabilities in influencing. The key skills sought included ability to influence the international development system, to influence DFID strategy by utilising internal and external resources, and to deliver influential advice and briefing.

DFID staff were incentivised by the status they gained from interacting at higher levels in recipient governments. They were promoted based on their ability to engage in effective dialogue.

There was a push to ensure DFID staff were aware of how other parts of government worked, encouraged through secondments into other departments and ministries, and other department staff into DFID. Most of the secondments occurred between DFID and the Foreign and Commonwealth Office, Ministry of Defence, Disaster Emergency Committee, and the Department of Environment, Food and Rural Affairs.

DFID invested in academic research to develop tools for policy dialogue. Tools such as Participatory Outcome Mapping, Theory of Change and Drivers of Change were applied to policy dialogue. The 'Research and Policy in Development' (RAPID) program at the Overseas

Development Institute was one of DFID's investments into policy research. Others include the findings from ten years of research on Governance and Fragile States (DFID 2010).

#### Box 8: DFID – bringing policy dialogue and political analysis to the centre stage

In 2005, DFID issued a new policy paper setting out guidelines for its staff on how to engage with its country partners around questions of policy conditionality. The policy paper was followed with a practitioner-oriented 'How To' note. Some key features are a focus on developmental outcomes, mutual accountability, and being politically-savvy, as the following extracts illustrate.

- 'In this new approach, agreed benchmarks for measuring progress on the reduction of poverty, rather than policy conditions set by donors, will be the basis for both partners to be accountable to their citizens' (DFID 2005, p. iii).
- 'Political governance issues should be assessed within the context of the three commitments [poverty reduction and MDGs, human rights, financial accountability] ... politics cuts across all three areas. We will need to have a good understanding of the political system, the trajectory of change and the political and institutional drivers of change. We should maintain current assessments of political accountability, rule of law and security-related issues. It is important to keep our political analysis up to date so that we can identify areas of concern and set them within a long term perspective, based on a sound understanding of the trajectory of change' (DFID 2006, p. 6).
- 'Policies and the process of policy making are important for poverty reduction. That is why an assessment of outcomes, policies and institutions is one factor in how DFID allocates its financial assistance among partner countries. DFID also engages in discussions with partner governments, and shares evidence and experience of the impact of policy reforms. Where we feel that high priority issues are not adequately addressed we should discuss our views with our partners. We should always be transparent about our views and the evidence base which informs them. We should support policy analysis including Poverty and Social Impact Analysis (PSIA) to inform policy dialogue and policy choice' (DFID 2006, p. 12).

Source: DFID 2005; DFID 2006.

### 5.3 Did it work?

Is DFID's policy dialogue effective? There is a mixed response from those interviewed.

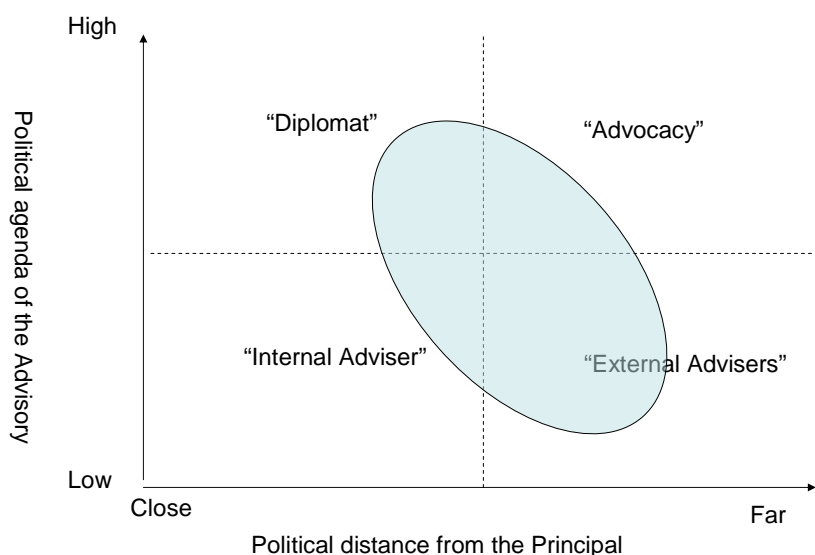
Some of the respondents felt DFID is very effective with its approach to policy dialogue. If one uses indicators such as DFID's approach to budget and cross-party support, it was thought that the capability of DFID staff at policy level was evident.

Others felt that DFID still does not understand the tenets of policy dialogue. There was a high turnover of advisers. Policy expertise is now coming from outside of DFID. The advisers end up being *de facto* managers and there is a fear of a decrease in technical expertise. It was also pointed out that many DFID advisers have never worked in governments and therefore have a poor ability to understand government processes.

While opinions differ as to whether DFID is effective at policy dialogue, it is clear that there has been a significant change in the way DFID does policy dialogue.

Figure 7 and Figure 8 attempt to represent the change in DFID, using the framework first presented in Figure 2. Figure 7 demonstrates the original position of DFID [ODA] in relation to the political sphere of the principal. Prior to DFID being its own ministry, the Overseas Development Administration was operating under the Foreign and Commonwealth Office and was largely focused on providing technical assistance. Further they were operating mostly within Britain's own political agenda (as can be demonstrated with the Aid and Trade policies and ODA being subsumed into the Foreign and Commonwealth Office.)

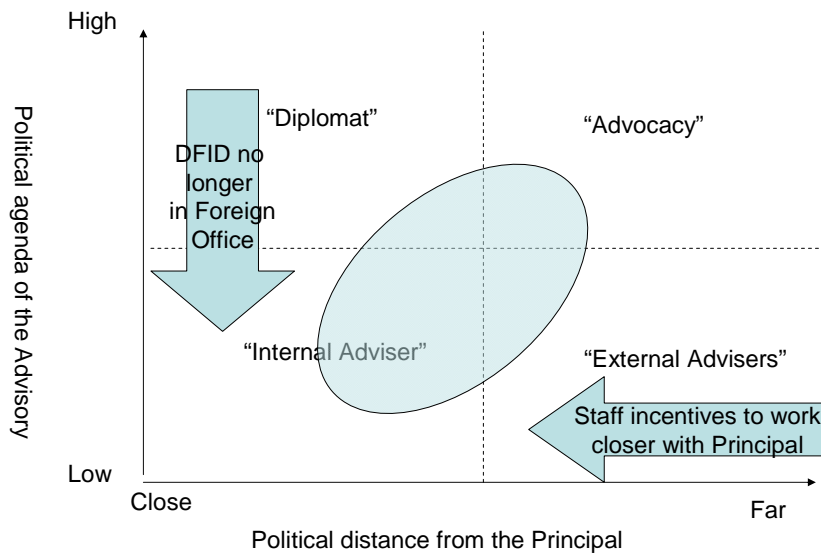
**Figure 7: ODA (DFID) in the 1980s and early 1990s**



Source: theIDLgroup 2011.

However, with the changes in DFID to focus on poverty reduction and the shift in policy coherence, the position of DFID in relation to the political sphere of the principal has now changed to that seen in Figure 8. International development is a separate ministry, and DFID staff are incentivised to work closer with the recipient governments' national processes.

Figure 8: DFID in 2000s



Source: theIDLgroup 2011.

#### Question for the evaluation

With reference to the types of policy engagement, what has AusAID's role been traditionally?  
Where would staff like AusAID to be positioned?

While DFID has made a name for itself for policy dialogue, it is still work in process. There remains a lack of concrete evidence of the impact of policy dialogue. As with many elements of transformational change, attribution is difficult and it is not easy accurately to measure DFID's proficiency in policy dialogue. What is certain, however, is that overall, DFID made the shift from a diplomat/external adviser role towards an internal advisory role which required more policy dialogue to be effective.

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## Annex 2: Interview Questions

1. When DFID started to focus on developing policy dialogue capacity of its staff, how involved were you in this initiative?
2. How did DFID change staff incentives or more specifically how did they move staff away from being motivated by project-based work with tangible results to more process based dialogue work?
3. Which skills did DFID identify as necessary to carry out policy dialogue? How did DFID develop these skills in their staff?
4. What approaches does DFID use for policy dialogue?
5. What does DFID use policy dialogue for? (In which situations are they most likely to use policy dialogue?)
6. Do you think DFID's approach to policy dialogue is effective? Why/ why not? Do you think DFID's process change to incorporate policy dialogue was effective?