Policy Dialogue

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Outline

1. Introduction
2. Policy dialogue in the new aid approach
3. Tools for analysing governance contexts and dynamics
4. Operational issues in multi-donor policy dialogue

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1. Introduction

- Policy dialogue is a concept with a long but somewhat dubious pedigree
  - prominent during the structural adjustment era
  - IFI views imposed on reluctant governments
- Under the new aid approach, policy dialogue is supposed to be different
  - dialogue: ownership – partnership – results-orientedness

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Policy dialogue – two approaches

	Structural adjustment (**in practice**)	New aid approach (**in principle**)
What is discussed	Economic reforms	Institutional reforms
Focus of reform	Inputs and policies	Outputs and results
Solutions suggested by donors	Standard recipes: 'Washington consensus'	No standard recipes
Negotiation style	Monologue	Dialogue
Actors on donor side	- IMF and World Bank - Mainly from HQ	- Multiple donors - Increased role for field representations

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Other features of new-style policy dialogue

- Increasingly multi-donor
  - IFIs
  - other multilateral donors
  - bilateral donors
- Multilayered
  - macro
  - sectors where SWAPs
- Institutionalised
  - performance matrices (PAF)
  - PRSP annual progress reports (APR)
  - joint sector reviews
  - joints assessments (PEFA, PER,...)

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New policy dialogue in practice

As yet little systematic empirical evidence of:

- The gap, if any, between rhetoric and practice
- The major constraints and challenges
- Emerging best practices

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2. Policy dialogue in the new aid approach

A brief recap of the background:

- Widespread development failure
- Notwithstanding large amounts of aid
- And yet success stories do exist elsewhere
  - South-East Asian tigers
  - China
  - more recently India
  - Botswana, Mauritius

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Perceived cause is governance failure

The failing actors are:
- government
- state bureaucracy

⇨ Many other factors are therefore only regarded as secondary causes of development failure:
- trade issues
- indebtedness, ...

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Governance failures may have deeper roots

- Climate, colonial history, population density,cultural traits, …

⬇

There is not much aid can do about these

- But whatever its origin, poor governance responds to deep political forces, and becomes locked in (e.g. patrimonialism)

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Addressing governance failures

- The new aid approach has the ambition to address such governance issues
- This boils down to some form of politico-institutional engineering
- This is a highly ambitious and a big gamble, but there seems to be no other option
- Except if you believe in the Poverty Trap theory (J.Sachs)
  - starting point: correlation between poverty and governance
  - interpretation: governance failure is a symptom, not a cause
  - more aid will address the issue, except for outliers
  - $\Rightarrow$ strongly contested in the academic community

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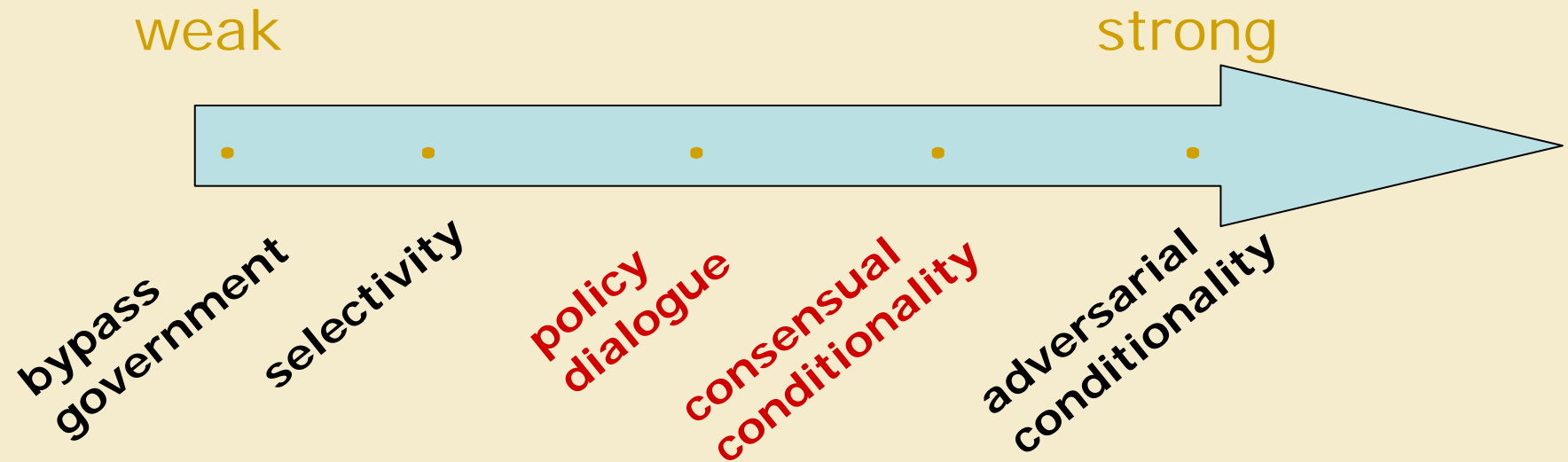
➔ Bypass government

– donors walk around the problem

– major instrument: donor-managed projects

– drawback: no sustainable results if governance failure is serious

➔ Selectivity

– donors pull reform, but without domestic meddling

– no dominant instrument, but mainly budget support

– drawback: moral issue of donor orphans

– drawback: global negative externalities of failing states

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→ Policy dialogue

– donors pull reform, actively support internal reform dynamics
– major instrument : generous and flexible budget support, TA

→ Consensual conditionality

– donors lock in agreed reforms in contracts
– augments credibility of policy dialogue
– major instrument?

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➔ **Adversarial conditionality**

– donors push reform

– major instrument : structural adjustment support

– some success with first-generation macroeconomic reforms

– does not work with second-generation reforms, because

- political issues become even more important
- donor conditionality lacks credibility
- the aid incentive is not strong enough

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Two types of conditionality

	Adversarial conditionality	Consensual conditionality
Sequence	ex ante	ex post
Subject	• input • policy	• process • output/outcome • final result
Drivers of change	external	internal

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The gamble of the new aid approach

- Hinges on the existence of a sufficient degree of commitment on the part of the government
- Yet only in a few cases is reform driven from the inside (Vietnam)
- In most countries commitment is superficial and opportunistic
- Or commitment is not shared by whole government, or only relates to certain domains, or unstable
- Many Belgian partner countries score rather poorly on this test

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The chance of success of the new aid approach

	High recipient commitment	Low recipient commitment
High recipient capacity	Strong	Unlikely
Low recipient capacity	Intermediate, but worth trying	Nill

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Policy dialogue contested

- Purists will argue that policy dialogue with attendant, even consensual, conditionalities violates the following CDF principles:
  - ownership
  - partnership
  - results orientedness
- According to this view, donor reform meddling and conditions are inappropriate
- This means that policy dialogue should be largely ceremonial and conditionalities avoided

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We disagree with the purists

a/ Results orientedness does not replace policy dialogue because

- The final results are too far in the future
- It will be difficult to correctly measure them
- It will be even more difficult to attribute responsibility

see slides 20 and 21 for a contrast between the results expected of a typical project and of GBS

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Logic chain of a project

Impact	• Reduced child mortality (<5 yrs)
Results	• Increased use of ORT to treat child diarrhoea
Intermediate results	• Mothers better informed about ORT • Improved access to ORT treatment
Outputs	• 5 media campaigns held (local radio) • 100 health workers trained in ORT
Activities	• Media campaigns to educate mothers • Training of health personnel
Inputs	• Training • ORT supplies • Funds

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Logic chain of GBS

Impact	• Income poverty reduced
	• Non-income poverty reduced (health, education, …)
	• Empowerment of the poor
Results	• Improved business climate
	• Civil and political rights better protected
	• More public resources for pro-poor services
Intermediate results	• Improved fiscal discipline
	• Less off-budget spending
	• Allocation of public resources reflects PRSP priorities
	• Anti-corruption policies in place
	• Independent audit receives government accounts more timely and reports more freely
Outputs	• More donor funding on budget
	• Increased predictability of donor funding
	• PRSP and sector strategy documents used to make budget choices
	• Improved financial control during budget implementation
Activities	• Policy dialogue between government and donors
	• Annual progress reports
	• Technical experts help improve budget process
Inputs	• Technical assistance
	• General budget support

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… **And because in addition**

- It is often glaringly clear that the goverment is off track, or pursues objectives that are inconsistent with the agreed strategy
- There are very often political motives for such policy lapses

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b/ Partnership is a nice word, but ...

- In fact it is far too nice a word (Booth et al. 2006)
- It is especially dangerous if seen as inimical to a policy dialogue that is more than ceremonial
- Recipients are good at exploiting these contradictions in the donor discourse (Rwanda)
- Donor bureaucrats also get caught up in partnership delusions

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c/ Ownership there must be, but ownership of what?

- The reform drive and the particular strategy for reform must come from inside the country
- And the pace of reform must be sensitive to domestic political possibilities
- But within these limits progress must be real
- Donors have responsibility towards
  - their own taxpayers
  - the poor in the recipient countries

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This brings us to the following proposition:

Policy Dialogue

- will be in touch with an internal reform drive or not succeed
- will be sensitive to opportunities for change or not succeed
- will at times be tough or will not succeed

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Some questions:

- How to assess the commitment in Belgian partner countries receiving new aid ?

- Should different degrees of commitment lead to different aid modalities within the new aid approach: general budget support, sector budget support, basket funding ?

- Do donors have a tendency to be too soft in the policy dialogue ?

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3. Tools for analysing governance dynamics

- Essential in the following discussion is the distinction between technocratic and political governance

- In the end both must be addressed, in mutual reinforcing ways

- But alternative trajectories are possible and trade-offs exist between both forms of governance

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Good Governance, Bad Governance

Political good governance

- Open and fair elections, political freedom and civil rights
- Respect human rights
- Well functioning judiciary, rule of law, access to justice
- Democracy enhancing initiatives, promotion of tolerance, active civil society

Technocratic good Governance

- Effective and efficient public sector based on meritocratic and Weberian administrative culture
- Sound economic policies and allocation of public resources, stability of regulatory framework
- Transparency
- Decentralisation and local capacity-building

Political bad governance

- No elections, no/limited political freedom, no/limited civil rights
- No/little respect human rights
- Judiciairy highly disfunctional, inaccessible, no/little rule of law
- Authoritarian system, repression of associational life, discrimination, exclusion

Technocratic bad governance

- Spoilsystem, inefficient public sector, ineffective, untransparant allocation public resources
- Bad quality policies, unstable regulatory framework
- Untransparent system, lack of accountability mechanisms
- Badly organised decentralisation, lack of capacities at local level

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The 'What to do?' challenge for donors

- Push for technocratic reforms → a state that delivers
  - Which is a question of capacities, resources, clear rules and procedures, efficient management, tools, instruments

- Push for political reform → a state that opens up for citizen participation and control
  - Which is often about the creation of political competition (hence electoral space, a new legislation, legal framework for political parties, etc...)

- Often both approaches are institutionally split
  - Development co-operation versus foreign affairs
  - In Belgium, as in many donor countries, there is a tendency towards integration

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Both are (partially) wrong ... yet also (partially) right

- Political reformers are wrong because of their dominant emphasis on formal electoral reforms
  - Can create anocracies, no guarantee for development
- Technocratic reformers are wrong because of their dominant emphasis on technocratic issues
  - Public sector reform tends to be not sustainable without political willingness
  - Political logic, upon which technocratic issues rest, remains untouched
- Yet political reformers are right because essentially it is politics that matters
- And technocratic reformers are right because through technocratic interventions gradual (political) change is possible

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Ideal: a technocratic approach built on solid political analysis

- Why?
  - 'Downstream' engineering of reform cannot succeed without understanding what happens upstream, or, reform is a profound political process
  - Understanding upstream & downstream → identify agents and moments of change/opposition
  - Aligning reform to the domestic agenda in order to make it stick

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Ideal: a technocratic approach built on solid political analysis

- ## How? Two examples
  - G. Hyden: 'bring power analysis into policy analysis'
    - « Policy without power is a pie in the sky »
    - « Power without policy is an unguided missile in the sky »
  - M. Grindle: 'good enough governance'
    - Particular policy regime call for particular types of reforms
    - First try to understand the process of reform
    - Get a good view on what is at stake for the stakeholders
    - Go for pragmatic, gradual improvements

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G. Hyden: incorporate power analysis into policy analysis

- Who sets the agenda?
- Who gets what, when and how?
- Who knows whom, why and how?

Structures and institutions	Constitution of power	Corporate/formal Personal/informal
	Distribution of power	State-centered/concentrated Society-centered/dispersed
Human agency	Exercise of power	Coercive/hard Persuasive/soft
	Control of power	Voice Loyalty lethargy

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Illustration

POLICY PROCESS POINT	POWER NEXUS	DEVELOPMENT CONCERN
Agenda-setting	Donor-government relations	Keeping country on reform track
Policy formulation	Politicians versus technocrats	Developing policy capacity
Policy implemenation	Formal-informal institutions	More effective implementation
Policy effects	State-civil society relations	Fostering empowerment

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M. Grindle

- Slide 36: characteristics of regimes and their capacities
- Slide 37: a hierarchy of governance priorities (P)
- Slide 38: the process of policy and institutional reform
- Slide 39: strategic analysis of opportunities for change
- Slide 40-43: ease/difficulty of governance interventions (ex: teacher professionalisation in country x as part of a reform in the education sector) (*our elaboration on the basis of Grindle*)

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Types of political systems	Characteristics	Institutional stability of the state	Organizational capacity of the state	Degree of state legitimacy	Types of policies in place
Collapsed states	There is no effective central government	Extremely low. There are no effective rules of the game that are agreed upon	Extremely low. It is difficult to identify organizations that have any capacity to produce results.	Low to non-existent. Those who wield power are outside the state.	No policies
Personal rule	Rule through personalities and personal connections. If political parties exist, they are based on personalities.	Stability highly dependent on personal control of power. Rules of the game emphasize power of elites and personal connections to elites; there is conflict over who controls the state	Low. Organizations respond to the personal and shifting priorities of powerful elites.	Low. There is often significant contention over who has the right to wield power; power is used for personal wealth creation.	Policies are unstable; a major objective is to enrich those in power; few basic public services are provided
Minimally institutionalized states	An unstable mixture of personal and impersonal rule, with varying degrees of legitimacy. Parties are based partly on personalities	Basic rules of the game are established in law and practice, although they function poorly and intermittently.	Low/Modest. There may be some organizations that are able to carry out responsibilities on a sustained basis.	Low/Modest. Conflict over the right to wield power persists in the absence of consensus about institutions for resolving conflict	There exist organizations to provide a range of basic public and welfare services; coverage is patchy and often based on patronage
Institutionalized non-competitive states	Rule through stable and legitimate organisations and procedures; no open competition for power. Political parties serve the regime or are hindered and controlled by it	Clear rules of the game and generally orderly processes of decision-making and public management are in place; generally centralized and authoritarian practices.	Modest. Many organizations carry out routine activities on a sustained basis.	Modest. Day to day legitimacy to carry on activities, but often in the presence of major questioning of the roots of legitimacy not based on consent	A wide range of basic and welfare services may be provided, but citizens have little influence over the range and type of provision
Institutionalized, competitive states	Rule through stable and legitimate organisations and procedures; open competition for power through programmatic parties	Rules of the game widely recognized as legitimate and not subject to significant change; conflicts resolved through appeal to the rules	High. Organizations challenged to improve performance on a sustained basis.	High. Legitimacy to make decisions and wield power persists even in context in which there is disagreement on the decisions and use of power.	A wide range of basic and welfare services. The range and type of provision are major themes in politics

Governance characteristics	Collapsed states	Personal rule	Minimally institutionalised states	Institutionalised non-competitive states	Institutionalised competitive states
Personal safety ensured	P	P			
Basic conflict resolution systems in place and functioning	P	P	P		
Widespread agreement on basic rules of the game for political succession	P	P	P		
Government able to carry out basic administrative tasks		P	P		
Government able to ensure basic services to most of the population			P	P	P
Government able to ensure equality/fairness in justice and access to services				P	P
Open government decision making/implementation processes				P	P
Government responsive to input from organised groups, citizen participation				P	P
Government fully accountable for its decisions and their consequences					P

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Arenas	Agenda Setting	Design	Adoption	Implementation	Sustainability

Interests and Institutions

Interest group structure
Mobilization of civil society
Policy role of executive
Party system
Role of media
Issue salience
International linkages

Executive-legislative relations
Party system
Bureaucratic structures
Bureaucratic interests
Interests affected

Characteristics of implementers
Interests affected
Inter-governmental structures
Interests of high/middle level officials
Capacity of public sector
New Interests

Actions and Choices

Initiating a Reform Project
    Reformer capacities/networks
    Policy champions
    Policy champion strategies

Developing a Proposal
    Policy champion choices
    Design team characteristics
    Design team choices
    Participation/exclusion

Contesting and Negotiating Reform
    Policy characteristics
    Opposition grievances
    Opposition strategies
    Reformer strategies
    Capacity to negotiate

Managing conflict
    Leadership strategies
    Reformer strategies
    Policy characteristics

New Stakeholders
Implementer incentives
Capacity to advocate/negotiate
Alliances

Governance reform: education	Opportunities for change	Constraints for change
What social, economic, political and institutional issues are supportive of change?		
What social, economic, political and institutional issues are likely to constrain change?		
What are the incentives that different actors have to support change?		
What is the role, power and influence of different actors likely to be opposed or support change?		
What is the role, power and influence of external actors such as donor agencies and other governments in supporting / constraining change?		
What are the expected payoffs for poverty reduction?		
How to operationalise the intervention?		

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Intervention	Degree of conflict likely	Time required for institutionalisation	Organisational capacity	Logistical complexity	Budgetary requirements	Amount of behavioural change required
Increase salaries teachers	low	low	low	low	medium	low
Teacher training	medium	medium	low	medium	low	Medium/ high
Civil service tests for teachers	high	medium	Medium/ high	medium	medium	high
Parent-teacher associations to monitor teachers	high	medium	medium	Medium/ high	low	high
Introduce performance-based management system	medium	medium	medium	medium	low	high
Etc…						

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Some questions :

- If context specific knowledge and interventions are crucial, what are the implications for the division of tasks and responsabilities between headquarters and the field?

- Does Belgium have a long-term strategic vision that helps to guide day-to-day actions in the field?

- Is there any need for these tools for political analysis? And who should make this political analysis?

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4. Operational issues in multi-donor policy dialogue

- New aid is in effect pooled among donors
- Policy dialogue is therefore a collective donor affair
- The diversity of donor expertise and experience can enrich the policy dialogue
- But donors must agree on basics, and at crucial moments speak with one voice

⇨ How can this be brought about?

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Techniques for donor harmonisation

- Donors concentrate their efforts geographically and sectorally = reduce multiplicity of donors and lessen harmonisation problem

- Larger donors always dominate
- Larger donors do GBS, smaller donors SBS
- Small donors delegate to larger donors
- 'Lead donor' approach
- Donors rotate

- Performance matrices (PAF)
- Joint assessments (PEFA, PER,...)
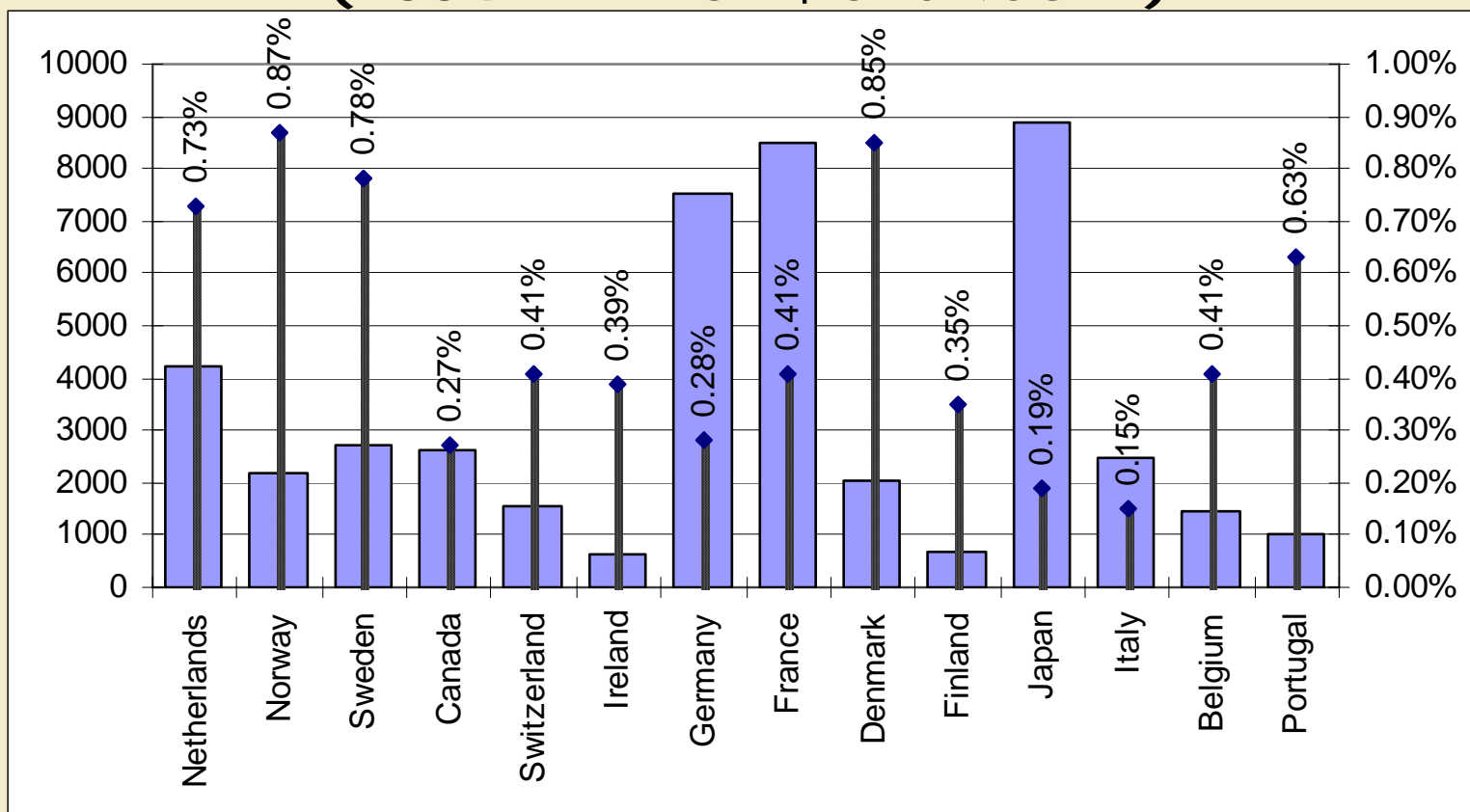- Annual joint reviews

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What is the role of small donors ?

Donor size depends on:

- the size of its economy
- its relative aid effort
- its geographical and sector concentration
- its concentration as regards aid modalities and instruments

See the slides 48-51 for an illustration (for GBS, unfortunately no such data exist for SBS)
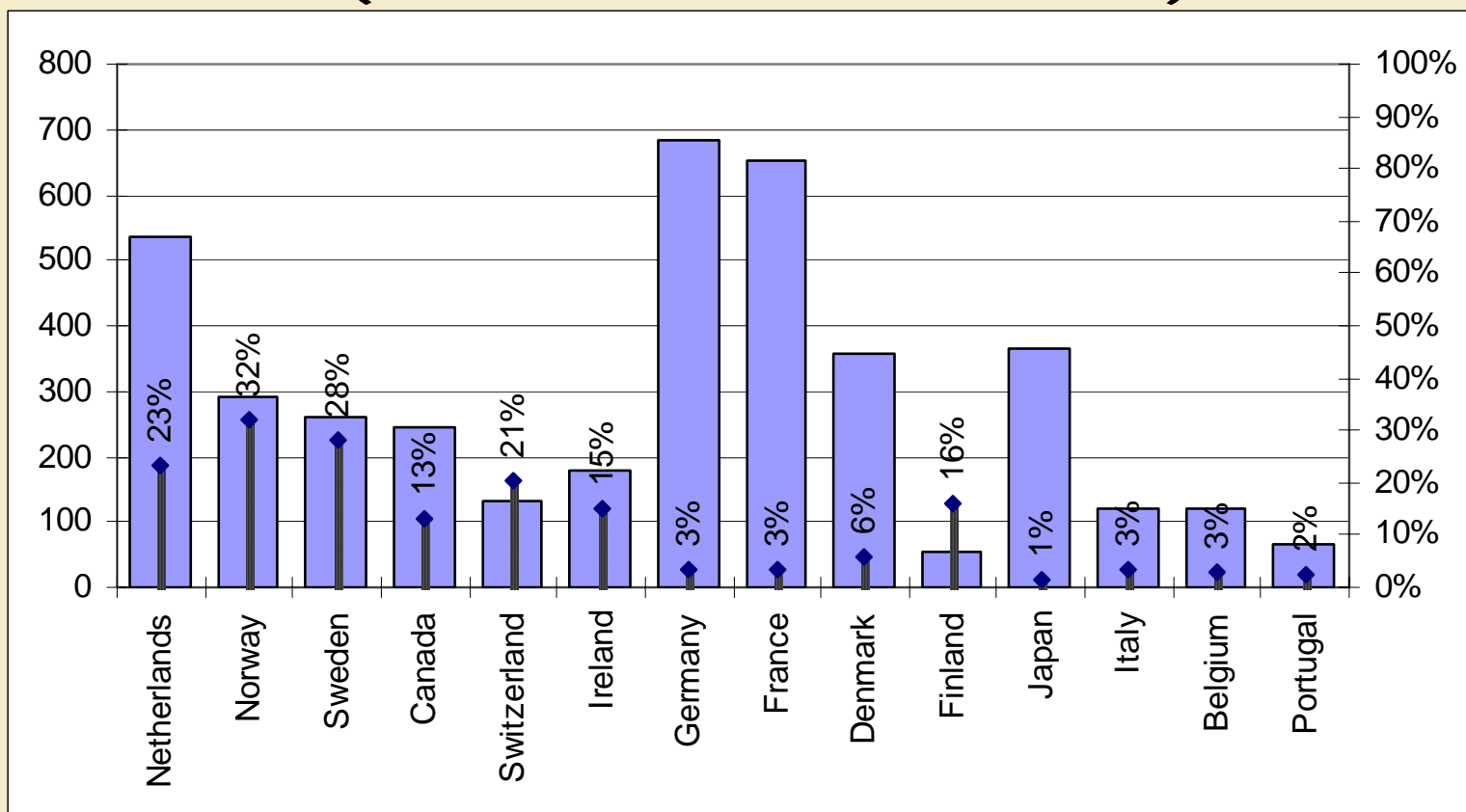
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Total ODA selected donors
(2004 – million $ and %GNI)

source: DAC

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ODA of selected donors to 16 African countries
(2004 – million $ and %GBS)

Bar chart showing ODA (million $, left axis) and %GBS (right axis, diamond markers) for:
- Netherlands: ~535, 23%
- Norway: ~293, 32%
- Sweden: ~260, 28%
- Canada: ~247, 13%
- Switzerland: ~130, 21%
- Ireland: ~180, 15%
- Germany: ~685, 3%
- France: ~655, 3%
- Denmark: ~357, 6%
- Finland: ~50, 16%
- Japan: ~365, 1%
- Italy: ~120, 3%
- Belgium: ~120, 3%
- Portugal: ~65, 2%

source: SPA 2004 survey

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GBS of selected donors to 16 African countries (2004 – million $)

source: SPA 2004 survey

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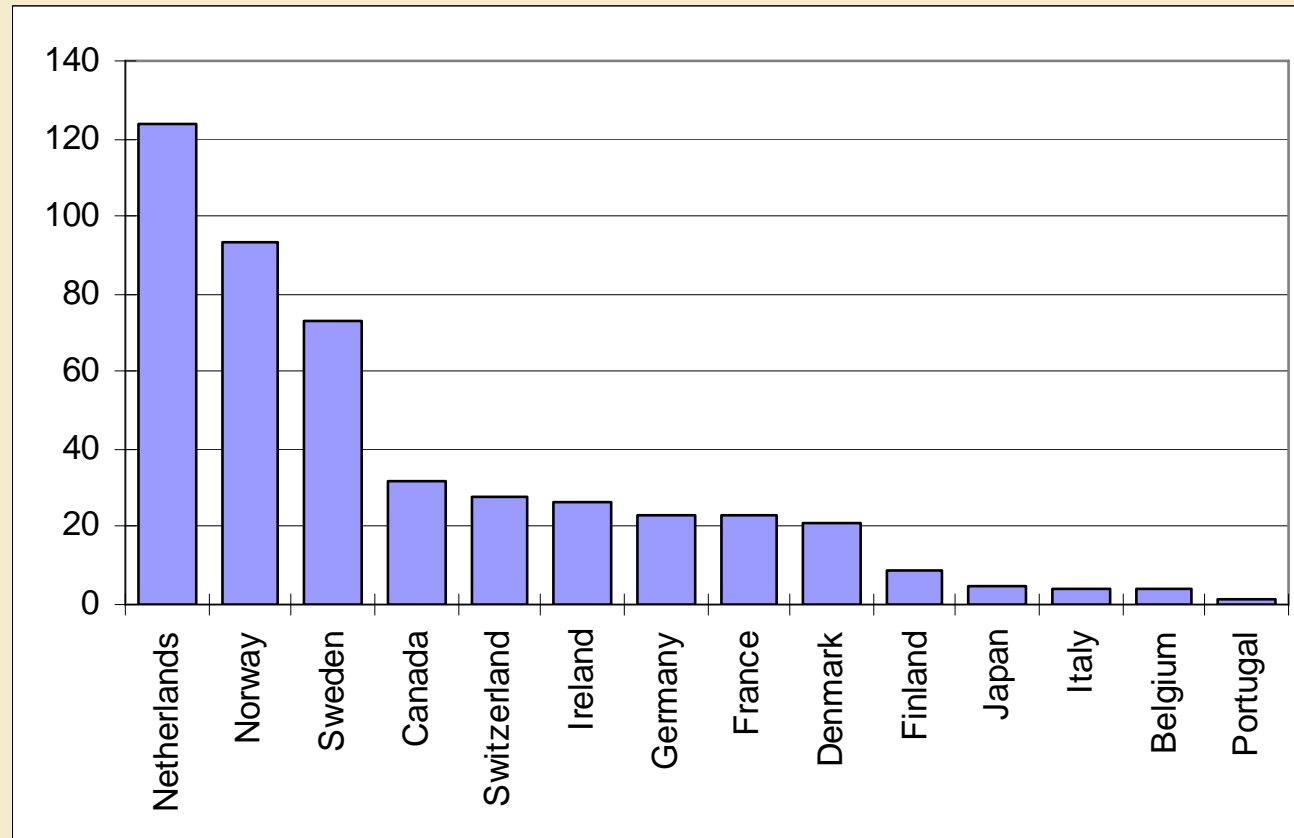
Note: African countries involved in SPA 2004 survey

1	Benin
2	Burkina Faso
3	Ethiopia
4	Ghana
5	Cape Verde
6	Madagascar
7	Malawi
8	Mali
9	Mozambique
10	Niger
11	Uganda
12	Rwanda
13	Senegal
14	Sierra Leone
15	Tanzania
16	Zambia

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Is there a minimum size for budget support ?

- It depends on the context
  - recipient country size
  - other donors: number and size
  - negotiation psychology

- A rule of thumb for minimum support ?
  - GBS: 5 million $ / year
  - SBS: 2 million $ / year

- It also depends on whether the donor wishes to weigh on the technocratic issues or on the more sensitive political ones

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In technocratic discussions any donor can play an important role

- If it has good technical expertise
- This often comes from projects and programmes, and good TA

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Policy dialogue differs among donors

- For strong conditionalities and tough policy dialogue, large donors have an edge
- Small donors may prefer to work behind the scenes and influence the position of larger donors
- Selectivity may be less indicated for smaller donors
    - because they have a smaller group of partners to be selective among
- Results-based conditionalities may be less indicated for smaller donors
    - recipients concentrate on conditions of larger donors, and lose sight of those of smaller ones

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Some questions :

- Are Belgian interventions of a size that permits a role in policy dialogue?

- How should Belgium position itself in the policy dialogue?

- How best to bring in incentives for results in Belgian interventions: selectivity, fixed+variable tranches, other?

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Thank you !

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