Donor Approaches to Governance Assessments

OECD/DAC GOVNET Conference on Governance Assessment and Aid Effectiveness

London, 20-21 February 2008

Concept Paper and Agenda Annotations

Introduction

As governance has gained prominence within donor agencies, a range of tools to assess governance have been developed, accompanied by increasing numbers of quantitative indicators. A mapping of donor approaches for the conference has identified that 18 agencies are using 30 different tools to assess governance, with further 16 tools under development.

The focus on governance assessment has served a number of purposes. These include informing decisions about aid priorities, modalities and volumes; informing a rapidly increasing number of donor interventions designed to support governance reforms; understanding the historical and socio-political context in which aid interventions are planned as well as increased concerns with accountability and transparency in the use of aid resources;

In this context, members of the OECD/DAC/GOVNET have agreed to organise an international conference in London on 20-21 February 2008 on *Governance Assessment and Aid Effectiveness* to share their own experience with assessing governance and to learn from others.

This paper serves as an introduction and guide to the agenda for the OECD/DAC/GOVNET conference. The structure of the paper reflects the agenda for the conference. The first four sections look at current practice (first day agenda items); followed by 5 forward-looking sections which correspond to the issue-based break-out sessions on the second day. Each section in the paper is followed by a set of questions which can be used by conference participants to inform discussions.

The paper builds on (i) the survey of donor approaches to governance assessments developed for the GOVNET in autumn 2007, (ii) individual interviews and feedback collected from donor agencies, as well as (iii) past surveys and other relevant sources[1]. The paper is written by Nils Boesen, lead consultant for the OECD/DAC/GOVNET Governance Assessment Project. The viewpoints expressed are those of the consultant.

Structure of the paper

The structure of this concept paper and the design of the conference are set out below:

- ***What are the use and impact of governance assessments?***

Donor approaches to governance assessments fall into two main categories: indicator-based, quantitatively oriented approaches (section 1); and qualitative, power/political economy-based approaches (section 2). Both sets of approaches have to be examined in the light of the purposes they are applied for and their actual impact.

- ***What effects do assessments have on partners?***

As the assessments which are examined here are initiated by donors, they are to some extent imposed upon partner governments and political actors. This can create tensions and affect the in-country impact of the assessments (section 3). The field case studies mentioned in section 4 will

[1] For references, see the Survey Report prepared for the conference.

serve as an illustration of how the tensions inherent to different approaches are reflected in practice. This section also looks at how donors have sought to harmonise these different approaches.

- ***What challenges for donors? – How and how far is harmonization possible?***

The following five sections will identify key challenges and explore how donors can tackle them. Clarifying what the underlying hypotheses might be for each model of governance assessments might be a first useful step towards enhanced donor coordination and even harmonization. Secondly, ensuring that these assessment methodologies are actually used for the right purposes is another critical area towards identifying opportunities and limitations to donor harmonization (section 5).

- ***What looks like emerging promising practice?***

Section 6 looks at new approaches which combine indicator-based and political economy-based assessments to look into specific sector or thematic governance issues. Section 7 explores how to strengthen the links between donor assessments and domestic governance processes.

- ***What internal donor agency changes does that call for?***

Methodology and process challenges are not stand alone issues: the need to identify how aid agencies' incentive structures can evolve to become more conducive to joint governance assessments is also critical. The issue of incentives is explored in section 8.

- ***What are the conclusions that can be drawn in light of the Accra High Level Forum (HLF) process?***

Finally, looking forward to the upcoming aid effectiveness HLF-3 in Accra in September 2008 and beyond, participants will discuss specific actions to be taken to strengthen the harmonisation and alignment agenda in the area of governance assessments (section 9).

Current Practices and Emerging Lessons

1. Use and impact of governance indicators at country-level

Donors produce and/or rely on a wide array of quantitative governance indicators, and it is widely acknowledged that they can be very helpful when used with appropriate care. In recent years, there has been a rich and important technical debate about the robustness and transparency of governance indicators. Beyond this debate, how and for what are these quantitative indicators actually used at country level, and what is the impact of having them?

Aggregate, mostly perception-based indicators are mainly used to determine aid allocations by various donors (the World Bank, the MCC, and the EC), and for research and advocacy purposes. Some of these indicators and their use as triggers of aid arguably function as an incentive for governance improvement under particular circumstances.

A number of donor approaches to governance assessments are now making use of a combination of experience-based data (e.g. "have you had to pay a bribe to..?") and factual indicators (e.g. actual expenditures vs. budgeted expenditures). These approaches are applied to specific cross-cutting issues (e.g. procurement, or institutions like central banks) and sectors (e.g. water or transport,). By being more "objective" than perception-based indicators, and by being more specific, these assessments are seen to be more effective for promoting change.

Governance Indicators –purposes, tools and debates

Current debates on quantitative governance indicators revolve around three main issues:

- **methodological dimensions** which range from statistical methods, sampling approaches, aggregation techniques to the robustness and validity of findings;
- **initial purpose vs. actual use,** i.e. the risk of using them for purposes which they are not suited
- **hypotheses underlying the indicators about state formation processes** and the causal links between **governance and development outcomes**.

Section 5 deal with the two last mentioned issues.

Indicator-based approaches often have an implicit or explicit norm or standard as their reference point which is considered to be the ''ideal'' model of how governance should be or how a particular institution is supposed to function and, against which current practice is measured. This can result in having assessments that correctly, but not usefully report huge gaps or poor performance because the ''ideal'' norm is too far away from local realities. Also, the indicator may not reflect the only relevant good practice against which to assess the current situation. However, against these concerns, there is an evident international trend towards standard-setting using specific indicators (ISO-norms and other performance benchmarks) which may also hold promise for specific governance processes (procurement, public financial management) or institutions (central banks, customs).

Possible questions for consideration:
- Looking beyond the use that donors make of them– how effective are aggregate, indicator-based approaches for promoting governance change in the countries being assessed?
- Is there a difference between experience-based /factual indicators and perception-based indicators in terms of how they are used in-country use and the impact they have on governance?
- Has the very specific standard setting for governance-related processes (e.g PEFA, Fiscal Standards and Codes, Human Rights) yielded promising results?

2. Going behind the façade – and then what?

Measuring governance does in itself not lead to any improvement in the very governance situation being assessed. Donors have come to realize that governance is about formal and informal politics, power and interests, and that governance develops as part of longer term complex state formation processes. Over the last decade, donors have therefore explored ways of understanding and analysing governance differently by looking into power relations, drivers and constraints of change and the political processes shaping how states develop.

Political economy analyses have allowed donors to gain more insights and a more subtle understanding of country contexts and dynamics. However, they have only offered limited operational advice on how governance change comes about and how donors can best support it There might be two reasons for this: firstly, political analysis may simply clarify that donors can do much less in a short time than they would like to, thereby reminding them of their own limitations.

Secondly, the approaches to political analysis adopted so far may be methodologically inadequate to make programming decisions based on the findings of the studies. For example, political economy assessments have been criticised for being too general, or focus too much on structural and institutional factors rather than on opportunities for action by agents of change. Recent experience with newer tools may offer some insights about whether these types of assessments can evolve towards more actionable analyses.

Conducting qualitative political analysis is arguably more sensitive than carrying out quantitative surveys. In particular, donors have had difficulties in taking clear positions on whom to involve amongst local stakeholders and whether or not to disseminate these studies. This may be unfortunate since political analyses could ideally inform the domestic governance debate and be helpful for domestic reformers. Thus, the development of political analyses may call for a different kind of engagement with relevant actors to what is done when collecting information for quantitative indicators.

Qualitative approaches – ''Good Practice'' or ''Good Fit''?

Quantitative indicators often establish what is considered to be **"good practice"** or how things should be. They then measure the gap between good practice, and the reality of how things really are.

Political, qualitative analyses on the other hand look for the **"good fit"** (i.e. what might work here?). They analyse the factors causing the current situation and identify the entry points which would "fit" the opportunities given the current situation.

"Good practice" approaches based on quantitative data are often criticized for ending up suggesting "big bang" reforms. On the other hand, "good fit" approaches run the risk of leading to opportunistic small steps which do not yield much result.

Section 6 invites to consider if and how "good practice" and "good fit" approaches can be bridged.

Possible questions for consideration:
- Given the mandates of donors, as well as what they can realistically achieve as outsiders, are they well placed to deal with the 'politics of development' that political analyses put focus on?
- In what way are second generation approaches of political analysis more operational or actionable?

- Do the sensitivities of power/political economy analyses justify a different kind of engagement with domestic stakeholders and a different approach to dissemination?

3. Being assessed by others

As agreed by the GOVNET Steering Group on Governance Assessments, the London conference focuses exclusively on governance assessment tools and processes used by donors[2]. These include approaches with no or very limited involvement of domestic stakeholders; approaches with wider involvement and/or participation; as well as approaches which seek to reinforce national ownership and capacity by using country-generated tools and by building on existing dialogues about governance and how it is measured at country level.

The legitimacy of donors conducting governance assessments for their own purposes (that is, to inform foreign policy decisions, for greater accountability to taxpayers, for aid allocation, policy dialogue and programming) is often contested by partners and seen as a new form of conditionality. At the same time, new actors are emerging on the international scene (e.g. China, India, Brazil) with different viewpoints on the role of governance in aid relations. This may further increase the tensions between donors and aid-recipient governments regarding governance and governance assessments.

Other well-known concerns closely linked to the Paris Declaration on aid effectiveness and the challenges of applying it to governance assessments include:

- The transaction costs for partners linked to multiple assessments
- The fragmentation of dialogue which comes from multiple donor-driven assessment and programming processes
- The limited impact of assessments on governance in partner countries due to limited domestic ownership.

Emerging lessons show that it may be possible to improve donor assessment processes by paying closer attention to how participation, consultation and dissemination is taken care of. Nonetheless, anecdotal evidence indicates that it is sometimes a poor or deteriorating governance situation or a poor general partnership between a government and its development partners that is the real cause of tensions, rather than the details of the assessment process as such. The wider governance context and possible acute conflicts are likely to influence how donor assessments are perceived – and used – by those being assessed.

Possible questions for consideration:

- Are tensions around donor-driven assessments increasing on the ground and will this require rethinking how donors conduct them and involve those being assessed?
- What are promising practices for making donor approaches more useful for and acceptable to domestic stakeholders?
- What causes tensions during donor governance assessments – is it mostly process and methodological issues; or as much the general quality of the partnership between partners and donors?

4. Lessons learned at country level

There are multiple approaches to carry out indicator-based or political analysis in-country. The following section explores a number of practices and issues based on concrete examples. More specifically, country case studies presented during the conference will focus on the following:

Joint assessments: A number of donors do not carry out their own governance assessments, but instead use the results and analysis of assessments conducted by other donors. In addition, a number of donors – even those with their own tools, have opted for conducting joint assessments using one single methodology in a number of cases. Exploring lessons learned from these experiences may inform further attempts at country-level harmonisation.

Multiple assessments in one country: multiple assessments have been or are being made in many countries. It is important to analyse what the reasons are to conduct these assessments in parallel,

[2] The conference held in Bergen in September 2007 by the Chr. Michelsen Institute and UNDP's Governance Centre also dealt with peer-based and self-assessments.

with no or little coordination and synergies neither between them nor between the actors involved in conducting them.

Partner country involvement: Some donor approaches to governance assessments have the explicit objective of engaging domestic stakeholders, whether at national level or at sector level. Different approaches are employed to foster this engagement and to enhance policy dialogue. The case studies presented may illustrate how these can be further optimised or extended to assessments that have so far involved partners in a limited manner.

Conflict and crises: A number of donors have developed specific tools to gain a better understanding and support programming decisions in conflict situations where governance is either sharply deteriorating or in the worst case breaking down. Comparing the findings of conflict assessment tools with the findings of "normal" governance assessments when a crisis erupts (e.g. in Kenya) may elicit the strength and weaknesses of these different approaches.

Thematic and sector governance assessments: Finally, the application of specialised governance assessments – focusing on e.g. particular human rights, corruption or governance vulnerabilities in a sector – may demonstrate operationally relevant supplements to country-level assessments. The specificity may also imply that such assessments are more easily transformed into actions, e.g. in shaping a specific Human Rights agenda, or helping partners to address corruption risks.

Challenges and frontiers of opportunities for donor approaches to governance assessments

5. Clarifying purposes, approaches and tools

Governance assessments, whether indicator-based or qualitative, rely on hypotheses underpinning the use of terms, the focus of the assessments, the categories used to assess governance, and the concepts used to analyse the underlying causal factors. The hypotheses touch complex phenomena like state formation processes and their links to economic, institutional and social development.

Assumptions underlying assessment methodologies are not often very explicit, but they usually measure governance against benchmarks which look very similar to present governance norms in OECD countries. These benchmarks tend to put strong emphasis on rule-based, transparent, capable, accountable, inclusive and responsive government. However, while attempts to demonstrate that such good governance is highly conducive to poverty reduction have been made, this causal link is questioned by other research, historical trajectories and present day performance of countries which nonetheless score low on donors' governance assessments (e.g. Vietnam, China, Cambodia). Political analysis also challenges fundamental assumptions about what processes lead to development. This has led to calls for a broader and more open debate about different perspectives on governance.

In addition, different approaches to governance assessment have been developed for different purposes which also reflect diverging assumptions about governance and state building. Some approaches target general, country level governance, using aggregate assessments, while others are thematic or sector-specific.

Notably, in the survey conducted for the OECD/DAC in preparation for this conference, the majority of donors claimed that their assessments served several purposes at the same time. This may be a tall order for these assessment tools which may not really be suited for the multiple purposes they are used for.

Differences in underlying assumptions, targets and purposes of assessment may both explain and justify the multiple tools used by donors. But this proliferation of tools is often unhelpful and even harmful for partner countries, particularly as the raft of tools used by donors do not openly disclose their purpose and the underlying conceptual assumptions they are based on. It is particularly noteworthy that donor countries which often claim to be "like-minded" tend to be as eager contributors to the tool proliferation as others are.

Possible questions for consideration:

- In the context of ongoing international debates on development and governance, is it time to engage in a more profound reflection on the validity of dominating paradigms of governance underpinning governance assessments?
- How can the purposes of governance assessments and the tools be aligned to avoid misuse and enhance the effectiveness of assessments?
- What can be done in the short term to assist all stakeholders making better informed choices of approaches, tools and processes?

The multiple purposes of donors' governance assessments

Purposes include:

- accountability to donor constituencies;
- advocacy;
- informing broader foreign policy decisions
- risk assessments;
- aid allocation decisions;
- dialogue with partners;
- assessment of feasibility of change;
- design of governance support by aid agencies

6. Using governance assessments to stimulate governance change

The juxtaposition of quantitative, indicator-based, standard-setting or benchmarking approaches on the one hand, and qualitative, political and change management-oriented approaches on the other hand may be an over-simplification. The distinction between the two main approaches does, however, convey the simple idea that the benchmark sets the desirable vision, goal or direction of change – the "good" or "good enough" governance practice. Qualitative stakeholder-oriented analysis, on the other hand, points to what could constitute feasible change, given the reform readiness of domestic stakeholders and the wider context to which any reform must fit.

Bringing the two approaches together may open up avenues for making assessment methodologies *both* rigorous and operationally relevant for stimulating governance change. Developments in this direction are most prominent at sector-level or in relation to specific cross-sectoral issues like procurement, public financial management or central bank operations. Standards or benchmarks in these areas are more actionable, and less politically contested.

Approaches which identify governance weaknesses along the entire "production chain" in a sector may also help target reforms better (e.g. addressing specific corruption risks linked to business processes in the health sector like the medicine supply system). More specific political analyses may also highlight the often partial and temporary nature of political ownership and political will, and help to explore the hidden incentives explaining why local politicians may not genuinely be committed to the fight against corruption.

Possible questions for consideration:

- How can donor assessments better stimulate governance change?
- How can political analysis and benchmarking approaches be combined at different levels?
- What short-term actions could explore these new avenues?

7. Enhancing and supporting domestic stakeholders' engagement in governance

It is broadly recognised that making progress in governance is first and foremost a process driven by domestic actors, where donors can only play second fiddle. The fragility of domestic governance processes is often evident, even when they are strongly supported and endorsed by the international community. The acclaimed good performers in terms of governance improvement all too often and all too sudden turn into less good performers, raising uncomfortable dilemmas for donors and questioning whether a harmonious, broadly-owned governance reform agenda can be forged. Sadly, the violent conflicts which suddenly erupt in some countries illustrates why donors are likely to continue to conduct their own governance assessments.

Good engagement practices are thus not likely to be the same across different country situations. This adds to the challenge of finding context-specific ways of engaging with domestic stakeholders ranging from fragile contexts to countries where governance patterns are structurally and institutionally consolidating.

Nonetheless, the way donors involve and engage domestic stakeholders in governance assessment processes arguably makes a difference on how the assessments contribute to ongoing governance dialogues in-country (see box).

Enhancing the engagement of domestic actors

- Partners sharing leadership and having active roles
- Alignment to domestic political calendars rather than to agency programming cycles
- Seeking to partner with a broad and influential set of domestic actors
- Be accountable for the assessment process and results both in-country and at home
- Partner with other donors in ongoing harmonization processes
- Disseminate results paying due attention to sensitivities of all involved
- Use the assessment process to support capacity development of domestic actors

Several donors are increasingly seeking ways to align behind or rely more heavily on domestic or peer-based review mechanisms like the African Peer Review Mechanism (APRM). However, experiences indicate that it is difficult for donors to build on or align behind assessments where they have not been involved throughout the process. This being said, various donors are supporting initiatives undertaken by domestic stakeholders themselves to assess governance (e.g. developing statistical capacity to generate indicators in-country).

Possible questions for consideration:

- Are there good principles of engagement to conduct donors' governance assessments, which could be adapted to different country situations?
- What can donors do, individually and/or jointly, to make their assessment approaches more effective for in-country governance processes?
- What can donors do to increase their reliance on and use of domestic or peer-based governance assessments?

8. Strengthening donor incentives for harmonisation

The politics of governance in developing countries has an obvious parallel in the politics of governance in and between donor organisations. Donor incentives to harmonise are, despite high level political commitments, competing with conflicting internal incentives including the initial high transactions costs linked to harmonization and the pressures to disburse money within a specific timeframe.

Unpacking these incentives in donor organisations is challenging. In the context of governance assessments, the challenges are exacerbated when common positions or at least a joint understanding of the situation involves sensitive issues like corruption or state capture.

Currently, the proliferation of governance assessment tools and processes is fuelled by both bilateral and multilateral agencies. Options for exploiting comparative advantages, divide labour more efficiently amongst donors or draw on a pool of commonly agreed indicators are not being fully exploited.

In addition to internal donor incentives, the crucial issue of mutual accountability has to be highlighted. Donors play a significant role in the political economy of some countries which rely heavily on aid. Despite this, only one of the donor approaches surveyed explicitly takes into account the role of donors in the domestic governance set-up.

Possible questions for consideration:

- How can incentives for harmonisation of governance assessments be strengthened, and how can disincentives be weakened or circumvented?
- Do bilateral, multilateral and independently governed agencies have comparative advantages in relation to governance assessments which could lead to enhanced synergies and more coordination?
- Would a closer look at donors' own impact on governance (i.e. by including them explicitly in political analyses) be a helpful supplement to current approaches?

Obstacles to harmonization of donors' governance assessments

- Accountability to own national constituencies
- Diverging foreign policy, trade and security agendas
- Differing underlying assumptions about governance and how donors can influence it
- Visibility concerns
- Intra-donor competition
- Spending pressure
- Division of power and labour between donor headquarters and field offices
- Initial high transaction costs of harmonization for donors
- Staff incentives linked to production of "own" tools, approaches and methodologies
- Different planning cycles

9. The road to Accra and beyond

The issues set out in the sections above signal the need to explore the challenges which have made and will continue to make the harmonisation, alignment and the participatory dimension of donor approaches to governance assessment a complex task. They also highlight that there are no easy shortcuts to advance the Paris-agenda on aid effectiveness.

The challenge is to identify actions that could:

- reduce the number of tools and approaches so that those remaining serve different purposes and/or are based on different underlying assumptions
- stimulate donors to use methodologies developed by other donors instead of developing very similar methodologies
- increase the involvement of domestic partners (government, civil and the private sector, where relevant)
- modify the incentives in donor organisations to facilitate harmonization and make it rewarding to staff

Specific short-term actions in these and other areas can be considered at three different levels:
i) actions at country level with domestic and development partners (e.g through piloting and extracting lessons learned from these initiatives);
ii) actions at individual HQ level (e.g. to modify incentives or enhance ability to align behind what others are doing); and
iii) actions at regional or global level, including actions by the GOVNET in OECD/DAC (e.g. discuss lessons of enhanced harmonization at the Accra HLF-3 and initiate selected joint donor assessments)

Possible questions for consideration:

- What are realistic short-term actions which would enhance the effectiveness of governance assessments?
- What are the medium-term agenda issues that should inform future work of the GOVNET in this area?
- What actions could be taken to further involve partner countries (beyond usual interlocutors) as well as new donors and engage in a different kind of partnership around governance assessments?