

Putting Politics in the Picture

Development is fundamentally a political process. Therefore donors need to understand and take into account the partner country's political and economic realities. This will help increase the positive impacts of aid and minimise the risk of doing harm, says Jan Vanheukelom of the European Centre for Development Policy Management, ECDPM.

Why governance and political economy analysis?

Development is fundamentally a political process. It involves balancing interests, the distribution of power, the control over resources and so forth. Donors know that. However, until recently this knowledge has been far too anecdotal and intuitive. There was little appetite with aid agencies or donors to invest more systematically in such knowledge development. Over the last decade, this has changed.

This article focuses on a new generation of tools that adapt a political economy lens to context analysis. The focus is on understanding how governance functions and why it functions as it does in a particular sector or country.

Characteristics of a political economy approach

A number of donors have developed political economy tools to better understand the feasibility of policy change and institutional reforms. That way, they hope to move from the intuitive and the anecdotal to more in-depth knowledge about the type of support that is likely to contribute to realistic change and longer-term development. They have started doing so at country level, and gradually also at sector and sub-sector levels. DFID's *Drivers of Change* and the Dutch *Strategic Governance and Corruption Analysis* are two examples of tools to analyse governance and political economy dimensions at country level.

Yet, these countrywide diagnostics triggered new questions, often about their operational relevance. Partly to solve such questions, the attention is shifting from the country to the sector level. This is the case with the EC's sector analysis tool, the *Governance Analysis Framework* (see EuropeAid, *Analyzing and Addressing Governance in Sector Operations*, Reference Document No 4). This tool features a number of political economy characteristics. The World Bank has developed a tool that drills down to the 'problem level'. This political economy approach can be used at different levels for different purposes: at country level for programming or strategic planning, at sector level for determining choice of actors and tools, and at project or problem level. Depending on the scope of the analysis, some frameworks (such as the Dutch SGACA) will also ask questions about structural features

What is governance?

Governance is an ambiguous concept that means many different things to many different people. In his blog, Graham Tesky at the World Bank, recalls Tony Benn's response to the question about what governance meant to him. The five questions the former British Labour MP put forward to anyone in a position of authority are:

*"What power have you got?
Where did you get it from?
In whose interests do you use it?
To whom are you accountable?
And how do I get rid of you?"*

These five questions would form a solid basis of any diagnostic on governance and could apply to individuals, organisations and institutions.

<http://blogs.worldbank.org/governance>

that are embedded in geography, in history and in global dynamics that affect domestic politics.

The emerging set of political economy frameworks or tools share a number of characteristics. Firstly, all try to capture the rationale behind the nature of power and political behaviour. Secondly, in order to do so, they map key stakeholders, and study their interests, the power they have, the influence they exert, and the incentives that influence their decisions or behaviour. Thirdly, these analytical frameworks also look underneath the surface of formal institutions (elections, rule of law, norms, etc.) and the political rhetoric (about democracy, development, growth, etc.). They focus on less formalised and visible arenas because that is where political, economic and social influence and power often play out.

Political economy analysis

Political economy analysis is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time.

Thirdly, most of these analytical tools also look at donors as political actors. Donors too affect politics or governance relations in partner countries. Donors, for example, can contribute to strengthening incentives for collective action by being transparent and more forthcoming about their aid efforts. This way, they can stimulate the demand from organised citizenry for accountability. But donors can also affect state-society relations negatively.

This again reinforces the point that donors ought to be aware about actors and factors that contribute to change processes and development in the longer run. Institutional and policy changes usually change over time. So it matters that external actors update, increase and sharpen the governance and political economy knowledge base. This concern about continued knowledge development is also a common feature of most political economy approaches.

Experiences so far

Donors involved in political economy analysis share a concern to make the frameworks or tools as operationally relevant as possible. In other words, how can these analyses and assessments address strategic and operational concerns in the field? How can these diagnostics inform the level of ambition, the choice of actors, of time-lines, of aid modalities and instruments, of engagement strategies and the levels of risks required to promote change?

Governance and political economy analyses have already demonstrated some added value. They have helped explain why specific reforms have worked or have not succeeded. In certain countries such diagnostics have informed the (re-)design of donor country or sector strategies. Indeed, they can help to identify what strategies are more likely to work. This was the case for DFID's country strategy in Nepal, for example. Such work generates insights that may inform donors on the choice of aid modalities and the partners to engage with. Typically, such diagnostics provide information about key stakeholders that influence sector performance, on the power they hold, and the constraints and incentives that drive their policy choices.

Political economy analysis can help appreciate the risks of using (or not using) country systems. They can also help understand what type of accompanying measures may be required when donors engage in budget support. This can help orientate donor support to checks and balance institutions, or to non-state actors that can strengthen the demand for improved service delivery or accountability. Political economy diagnostics are used to inform and calibrate the policy and political dialogue with partner governments. Again, such political economy approach may direct donors to include a broader set of actors than the usual suspects.

Political economy analysis also helps identify regional and global drivers that affect the incentives for domestic actors. Land grabbing, natural resources theft and large scale corruption in developing countries can often only be addressed when regional and global actors and dynamics affecting the balance of power are understood. International initiatives such as *Extractive Industries Transparency Initiative, Forest Law Enforcement, Governance and Trade, and the implementation of the UN Convention against Corruption*, stand to benefit from such political economy approaches.

‘So what?’ – Difficulties to overcome and the way forward

To development practitioners and sector specialists, the usefulness of such additional analysis is not always clear. They often fear that such analysis adds a layer of complexity and reflection, rather than solving practical problems and leading to action. Moreover, the dominant *business model* in the aid industry usually does not recognise the central place of politics in development. The donor push for demonstrable results and visibility does not sit easy with a process approach that focuses on feasibility rather than on ideal blueprints. Hence, proponents of a better understanding of governance mechanisms and political economy approaches to context analysis will have a hard time demonstrating the added value of this work. It will also be difficult since some of the findings of the research are counterintuitive. Findings will often only be visible over time. And sometimes the conclusions may point to strategies demanding more human resources and reducing the volumes of financial inputs.

EuropeAid and political economy work

EuropeAid has developed an analytical tool to identify key governance actors and factors in sector operations. This *Governance Analysis Framework* is being field tested in order to strengthen its operational relevance for specific sector work. Furthermore, EuropeAid also integrates a political economy approach in other work related to the re-design of the *Project and Programme Cycle Management*. The core guidance on the context analysis will integrate

Example: Bus Operations in Bangladesh

The case of the Urban Bus Operations in Dhaka, Bangladesh, illustrates well the shifts in donor approach that a political economy analysis may trigger over time.

The World Bank’s study of transport in Dhaka clearly pointed to the risks involved in disproportionate investments in hardware such as busses. There was simply too much corruption and poor governance of the public transport systems. The forces in support of the status quo (poor services, corruption, connivance between political elites, bus owners and their association) were too strong.

So the World Bank scaled down its investment component in the public transport sector. It re-directed its attention to institutional strengthening and consensus building among stakeholders such as civil society and media.

From a supply driven and technocratic orientation, the support programme shifted to a more politically informed disposition. The bank emphasised stronger process ingredients (such as facilitation, brokering, information sharing, and consensus building) and demand-side stakeholders (civil society organisations including watchdog organisations, media, etc.).

political economy dimensions, as well as a stronger focus on history, geography and other structural features.

EuropeAid will also hold a seminar on political economy analysis (11-12 January 2011, Brussels) and will integrate this component in its learning and training events in 2011. It has launched a dedicated online Working Group on political economy called “Political Economy in Practice”, which can be found on www.capacity4dev.eu. This way, EuropeAid intends to *socialise* experiences and knowledge and support networking with experts and experienced practitioners within and outside of the EC.

Information about specialised training courses as well as in joint or harmonised PE diagnostics with other donors will be shared. Ongoing work with a strong PE focus to it include: governance related analysis in sectors of transport, water, trade facilitation, but also in dialogue and developing guidelines on specific aid modalities such as budget support, or particular stakeholders, such as non-state actors in a context of applying the core principles of the Paris and Accra agendas.

Political Economy Tools and Guidance

The EC's Reference Document 2008 on *Analysing and Addressing Governance in Sector Operations* fits in to an expanding list of sector specific tools, and is available for download: http://ec.europa.eu/europeaid/infopoint/publications/europeaid/149a_en.htm

Three *how-to* publications underpin the interest in political economy analysis, they are:

1. Problem-Driven Governance and Political Economy Analysis. Good Practice Framework. September 2009, The World Bank, PREM, Verena Fritz, Kai Kaiser, Brian Levy

<http://siteresources.worldbank.org/EXTPUBLICSECTORANDGOVERNANCE/Resources/PGPEbook121509.pdf?resourceurlname=PGPEbook121509.pdf>

The authors start by admitting that for a long time, the World Bank has been uneasy with politics and political economy diagnostics. Yet, there is now a stronger emphasis on the need to understand and analyse the political economy context of reforms. The *Good Practice Framework* synthesises the lessons and experiences in its diagnostic work on corruption, governance and political economy analyses. This framework seeks to contribute to develop tools and practices in support of smarter, more realistic and gradual reforms in developing countries. While directed primarily at the bank, the *good practice framework* is useful beyond this audience, and the tools are largely in line with or complementary to the ones the EC developed.

The *Good Practice Framework* also presents an overview of key concepts, and deals with the following questions in a nuanced and accessible way:

- How can analysis be translated into action?
- What level to choose for the problem driven governance and political economy analysis? The country level, the sector or the project level?
- How to build stronger evidence and case material?
- How to get the process for analysing and addressing governance and PE right?

2. In its series of *How to Notes*, DFID has produced a special ***Political Economy Analysis*** issue which summarizes well the main experiences of conducting political economy analysis within DFID, and their main tools and approaches.

<http://www.odi.org.uk/events/2009/07/23/1929-dfid-note-political-economy-analysis.pdf>

3. **Analysing and managing the political dynamics of sector reforms: a sourcebook on sector-level political economy approaches**, David Edelmann, Working Paper 309, November 2009, ODI

<http://www.odi.org.uk/resources/download/4323.pdf>

This sourcebook provides a user-friendly overview of most sector-level political economy approaches and the tools itself, including the EC's sector governance framework. It also provides some comments on strengths and weaknesses. For those who want to take the sector-level political economy forward, there is an overview of theories that can be helpful. The sourcebook ends by providing ten recommendations on how to improve the sector-level political economy approaches.