

## **Annex B**

### **Case studies of applications of political economy analysis by DFID country offices**

#### **Introduction**

Political economy analysis has demonstrated its potential to add value relevant to DFID country work across a large range of issue-areas. It has also been widely applied to strengthening country operations in at least five areas, as briefly illustrated in the HTN main text. This annex provides more and slightly fuller examples of actual applications, using the same five headings.

#### **1 Contributions to country planning**

##### ***Nigeria***

DFID Nigeria has been heavily engaged in political economy analysis since 2003 when it commissioned perhaps the most ambitious and wide ranging drivers of change studies to date. This had a far reaching impact on the 2004 CAP, which in addition to aligning with the government's National Economic Empowerment and Development Strategy (NEEDS) also sought to work on the demand side of governance reform by supporting coalitions of actors with the potential to bring about change. The approach has focused on selected issues where political economy analysis has pointed to a greater feasibility of reform.

DFID Nigeria uses a variety of tools for political economy analysis, including state level governance analyses, scenario analysis and Strategic Conflict Assessment. It has also used its expertise to inform its operational partnership with the World Bank, and has commissioned inputs into a World Bank Country Economic Memorandum on the political economy of economic reforms. Political economy analysis is regularly used as part of the process of programme design and review.

The focus of analysis has tended to shift from macro-level country studies – the broad constraints now being well understood and not subject to rapid change – to more in-depth assessment of political economy issues at the level of individual issues or programmes. For example, recent analyses have covered political distortions of rice markets (in relation to the PrOpCom programme) and political economy aspects of the supply of medicines (in relation to support to maternal and child health).

##### ***Ghana***

The 2003/4 drivers of change exercise in Ghana had a limited direct impact on programmes but has raised the general level of the office's engagement with national issues. The political economy analysis 'entered the bloodstream' of DFID Ghana and as a result had a number of significant indirect impacts on ways of working and thinking about programmes.

Although the overview report made a number of specific recommendations about DFID programming, the timing did not favour their immediate adoption. The office was only one year into implementing a new CAP and was already committed to an elaborately harmonised Multi-Donor Budget Support agreement between 10 Development Partners and the government. The judgement was made that the political economy analysis left intact the main

premises of the current CAP even though it placed question-marks over several assumptions underlying DFID's approach, particularly regarding the political incentives involved in civil service and public financial management reform.

The more indirect impacts on ways of working included gearing policy dialogue more closely to the government's own vision of Ghana's future, a more sophisticated basis for prioritising among public sector management reform initiatives taking senior officials' own risk/reward calculations into account, and efforts to get out of the office and engage more widely with Ghanaian stakeholders in spite of the constraints imposed by limits on advisory staff numbers.

The drivers of change exercise included special studies on traditional institutions and the middle classes, which were found particularly helpful in structuring advisers' knowledge around specific programmes in land, forestry and civil society advocacy. An education sector political economy study, considered a gap in the original exercise, has since been undertaken in-house. The overall analysis informed a World Bank Country Economic Memorandum. However, wide sharing of the results with the other donors with whom DFID is harmonising many of its decisions was not a feature of the original process, and this too represents a significant gap.

*Source:* Sue Unsworth, 'Is Drivers of Change Making a Difference in Ghana?', 2005.

## **2 Informing project/programme design**

### ***Bangladesh: Service Delivery and Coordination in Arsenic Mitigation (SISDCAM)***

In 2005 DFID was planning to provide support to the Government of Bangladesh (GoB) for SISDCAM. The purpose of the support was to develop a coordinated approach for effective service delivery of safe drinking water and arsenic mitigation, with a particular focus on reaching the poorest. The intention was to implement the programme through the GoB Planning Commission, who would act to improve coordination and also disburse funds to the GoB agencies undertaking the groundwater mapping and management for Bangladesh. Leadership in implementation would be Water Resources Planning Organisation supported by a Project Management Unit.

Prior to submission of the Project Memorandum, DFID Bangladesh commissioned an appraisal of the institutional and political economy context. The objective was to describe the incentives for, and barriers to, implementation and achievement of the project purpose.

The assessment seriously questioned the ability of the Planning Commission to coordinate cross-Ministry arsenic mitigation efforts. Its poor performance in coordination and monitoring was, furthermore, not primarily the result of capacity constraints or misallocation of functional responsibilities, but rather connected to built-in incentives in the budget system. The risks attached to the original SISDCAM design were therefore greater than had been supposed. On the basis of the political economy assessment, DFID decided that it would not proceed with arsenic mitigation using this particular approach.

The assessment recommended moving to an 'issues-based approach'. That is, DFID should help raise the political profile of arsenic pollution by publicising reasons for and approaches to solving the problem. The objective would be to make this an issue on which political leaders might be compelled to put patronage and corruption interests to one side, and become motivated to work for improvements service delivery.

*Sources:* Based on Indrani Chakrabarti, 'How to Note on PE Analysis: Examples from Bangladesh', 2008; Simon Foot and Haroon Rashid, 'Institutional and Political Economic Appraisal: SISDCAM', 2006.

### ***Equity through Pro-poor Growth in Nicaragua***

The Regional Assistance Plan for Latin America (2005-08) committed DFID to working on country policy environments and the related institutional problems, rather than being a large-scale provider of development finance. This was to be done by working 'through, with and around' two of the largest providers of funds and policy advice, the World Bank and Inter-American Development Bank (IDB). The strategy involved advisers in diagnostic work using political economy analysis and designing projects to overcome the identified institutional blockages.

In the field of pro-poor growth in Nicaragua, the institutional obstacles were particularly associated with the characteristics of three important groups of actors:

- the government;
- the donor community; and
- the micro, small and medium enterprise sector.

The government's weak capacity to operationalise its general strategy of promoting small and medium enterprise, the donors' inability to adopt a coherent approach, and the fragility of the local business associations, combined to create an operating environment characterised by lack of trust, hostility, exclusion or cooptation. Public-private partnerships of any kind were infrequent, and the business climate for small enterprise was difficult. Within this context, a particular challenge has been the limited focus on the small-scale and informal economy in the competitiveness work of the World Bank and IDB.

The PEMCE programme was designed to help in overcoming this particular log-jam. It helped to create conditions for a more constructive and effective interaction between government, donor agencies and the small-scale private sector. Its work with government ushered in more effective ways of coordinating public- and private-sector partners, including sector-by-sector problem identification and local approaches to improving the enabling environment. It stimulated the alignment of donors, including the IDB and the World Bank, with these ways of working. The private-sector associations – local, sectoral and umbrella bodies – were assisted to become effective campaigners for public-sector services and a supportive policy framework.

Noticeable improvements in the climate for small and medium business took place during the first two years of the programme as a direct result of the improvements in the relationships between the stakeholder. By acting on the local institutional setting, improving public policies and creating demonstration effects, the programme was also effective in turning around the behaviour of the big players. World Bank competitiveness work began for the first time to take the small-scale sector seriously as a source of economic growth.

*Source:* ODI, Interim Evaluation of the RAP.

### **3 Choosing aid modalities and forming partnerships**

#### ***Malawi budget process***

A 2004 study for DFID Malawi concluded that the country's formal budget process 'is a theatre that masks the real distribution and spending'. Its recommendations concerning the strengthening of actors outside the executive branch to increase demand for economic accountability were picked up the new 2005-09 governance programme, 'Tikambirane' ('Let's Talk'). A subsequent change in the political landscape in Malawi – resulting in a minority government and strong opposition in Parliament – provided opportunities for Parliament to flex its muscles in challenging the Executive, helped to create a receptive environment for this programme.

The Tikambirane programme has supported civil society to better scrutinise the budget and engage constructively with MPs. It has also supported the Parliamentary Accounts Committee to carry out its oversight role better. Training of journalists has been provided to improve coverage of economic governance issues. MPs have been trained in budget monitoring, gender budgeting and budget analysis. Some of the impacts of the programme have been:

- more active civil society scrutinising the budget and holding Government to account;
- more effective PAC scrutinising budget and calling line ministries to appear before hearings;
- increased pro-poor budget allocations following civil society engagement, for example in health and agriculture, and cuts for non-priority expenditures such as state residences;
- improved media reporting on economic governance – in particular, increased coverage on Front Pages, previously dominated by political events and gossip.

*Source:* Charlotte Duncan, 'How Malawi Applied PE Analysis in Designing Governance Programmes', 2008

#### ***Bangladesh Public Financial Management (PFM) study***

In 2006, DFID commissioned an assessment of the institutional and political economy context of PFM reform over the past 13 years in Bangladesh. The assessment suggested that there were significant barriers to achieving financial management reforms through technical assistance and capacity building alone. The capacity-building approach adopted by successive programmes suffered from working almost only with those in government who are generally opposed to change. It recognised that while individual change champions could be identified, change did not normally happen through the actions of such people locked into the established system.

The report argued that:

- the actions of ministry officials are limited by vested interests in patronage and corruption;
- the ways things are done in ministries is the historical result of the emergence of particular dominant classes and elite groups; but
- there are other groups in Bangladesh society that are less aligned with elite interests and want to see a change in the way public money is managed.

Although the first proposition could be considered quite well known to donors, the second and third were less appreciated.

Two lines of alternative or additional support were proposed to accompany a further phase of support to PFM capacity building. These would focus on improved public transparency, with monitoring or budget tracking concentrated on a few highly visible service-delivery sectors. If political capital could be built on visible successes of these kinds, some political leaders might start to place a greater emphasis on achieving policies as a route to legitimate governance.

*Sources:* Indrani Chakrabarti, 'How to Note on PE Analysis: Examples from Bangladesh', 2008; Simon Foot and A.K. Mubin, 'Political Economy Assessment for Review of Financial Management Reform Project, Bangladesh', 2007.

## **4 State-building and conflict-reduction**

### ***Afghanistan***

According to the Afghanistan Political Economy Analysis, Afghan history points to the dangers of attempting rapid reforms that have limited societal support. International experience suggests that successful state building depends on achieving an underlying 'political settlement'. In a strategically located country like Afghanistan, it depends also on 'Grand Bargain' that involves the main international and regional players as well as the national ones. In the absence of these preconditions, efforts to build a state that meets minimum standards of 'stateness' and developmental effectiveness are bound to be frustrated.

Against this background, the study found that the post-2001 agreements had failed to cement a settlement involving the main domestic, regional and international players. The limited character of the elite pact had led to a fragmented international community; a regional context in which neighbouring countries continue to support competing proxies; and a domestic arena in which political authority is profoundly fragmented. DFID and HMG have been taking these findings into their thinking. More emphasis is being placed on state-society relationships and the question of the political settlement and relatively less on state-building as the strengthening of formal public-sector capacities.

Efforts are being made to share and build consensus around some of the key points in this argument. The ultimate objective is a harmonised change of approach, involving all of the allies and the whole donor community under the aegis of the UN.

### ***Nepal***

A Strategic Conflict Analysis was commissioned by DFID in 2002 as an input to its four-year Country Assistance Plan. It was undertaken by a team of national and international consultants who took a political economy approach to the causes of the conflict between the Government of Nepal and the Maoist insurgents. Previous studies had documented the significant grievances underlying the conflict, particularly the social, political and economic exclusion of low castes, ethnic groups and women. However, this was the first to highlight the role of aid in strengthening the elite bias in public administration and public services. It emphasised weak incentives rather than just weak capacities in explaining the failure of the government to become more responsive to excluded groups.

Drawing operational implications from the report was difficult for DFID because destabilising a weak government facing armed opposition was not an option, especially in the immediate aftermath of 9/11. DFID sought to resolve the tension between the various pressures upon it by developing a hybrid strategy. This involved working with government where it had some

will and capacity (notably in health and education sectors, where the Maoists were willing to allow services to continue and there were no serious parallel delivery options) and supporting parallel mechanisms where government could not operate, such as micro-level community development.

A distinguishing feature of this early experience was that the analysis was not shared at all with other donors or even with other UK Government departments (FCO and Defence). That weakened the coherence of the UK position at various critical junctures and implied loss of potential gains from a harmonised donor approach. On the other hand, the independence and confidentiality of the consultants' study was probably a strength, in that it enabled a fundamental critique of the donor approach to be laid on the table, which might not have happened if it had been jointly commissioned and widely shared.

*Source:* Mark Segal, 'Case Study – Nepal Strategic Conflict assessment'.

### **Sierra Leone**

A Drivers of Change study carried out in 2005 argued that Sierra Leone had ceased to be a failed state but remained a fragile one. Many of the root political, economic and social causes of the civil war remained. The profound divide between Freetown and the rest of the country created in the colonial period persisted. Sierra Leonean politics, based on the patronage networks of a narrow city-based elite, had proven far less plastic or malleable than many assumed at the end of the war. Chiefs continued to dominate the rural scene, and much of the economy remains extra-legal. At the same time, the war had displaced many people both physically and socially. The population was younger and more urban than before. These trends were creating new axes of collective action, and amplifying the voices of women and youth.

The recommendations of the study included some high-level advice to donors on ways of working and approaches to reform. Donors should adopt an incremental approach, geared to nurturing a 'capable *enough* state', and exercise their influence in ways that are politically astute and attuned to informal institutions. More specifically, however, women and youth who have been mobilised but not yet provided with substantial employment opportunities within the legal economy represent a critical opportunity for the consolidation of the peace and progressive political change.

This analysis led DFID to place a high priority on developing programmes targeted at women and youth.

## **5 Improving the quality of dialogue and engagement**

### **Palestine**

A Drivers of Change study was commissioned in 2006/7 looking at the domestic and international drivers which had influenced the progress of civil service reform within the Palestinian Authority. It was undertaken by a team of Palestinian academics, Palestinian consultants and international consultants. It explained the roots of the institutions of the Palestinian Authority (PA) and the political, economic and social factors which have shaped them and continue to influence their evolution.

Because of the geopolitical significance of the Palestinian Territories, policies and received wisdom on Palestine tend to be externally generated at the international level. There is less receptiveness to perspectives generated through working on the ground. However, the study

has been very useful in providing improved understanding of local political dynamics, and the limited room for manoeuvre available to the PA in reforming the public sector..

The study has enabled DFID consultants to be more sympathetic to the position of their Palestinian counterparts, but also more robust in pushing for reform in the areas where this is feasible. It has also better equipped DFID's public sector reform project to identify and respond to political openings as they arise. The consultants have been able to adopt a working style that is viewed by their Palestinian counterparts as showing a high degree of local knowledge, understanding and sensitivity. The resulting trust has enabled the project to gain close access to parts of government, including the Ministry of Finance, where engagement had previously been very limited.

The reform plan that has emerged has more modest objectives than some would have liked, but is viewed as being far more credible and likely to be implemented than many of the previous plans that were highly ambitious, but existed on paper only.

### ***Latin American programmes***

DFID operations in Latin America during the last decade include a number of good examples of political economy analysis feeding directly into enhanced programme designs. However, a more important feature of DFID's Latin American experience is how the diagnostic use of political economy analysis came to be adopted as a routine way of working, recognised as a distinctive feature of 'the DFID approach' by external stakeholders and other donors.

Little of the analysis in question had the formal status of a Drivers of Change analysis or 'study' of any description. Rather, political economy insights were translated into partnerships and programme designs in a joined up way. The calibre of this work owed much to DFID's employment of locally recruited advisory staff with a precise and nuanced understanding of the local context as well as relevant social science training. Also important was the attitude of a succession of Heads of Office who encouraged their teams to acquire an excellent understanding country-level institutional issues, to get out of the office and engage with potential partners, and to design programmes on that basis.

The approach that was adopted starts from the generic diagnosis of Latin America's development experience which identifies badly functioning institutions as a core problem. It then focuses-in on particular institutional blockages of a sectoral or cross-cutting sort. It asks which parts of the problem might be susceptible to solution in the medium term. Focused diagnostic work is done to identify the key actors or stakeholders involved in a particular set of barriers to pro-poor change. The questions then arise: What problems of collective action, cooperation, communication or trust are preventing measures to reduce the problems in the prevailing set-up? And how, if at all, might an external intervention of the right kind make a difference? The answers to these questions lead directly into the design of a DFID-supported activity. They did so most notably in the areas of pro-poor trade, local governance and political party systems.

*Source:* ODI, "Punching Above its Weight": An Evaluation of DFID's PSPS, LAMIT and ENÑACE Programmes in Latin America', 2008.