DFID Department for International Development

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# Political Economy Analysis How To Note

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## *Summary*

Political economy analysis is a powerful tool for improving the effectiveness of aid. Bridging the traditional concerns of politics and economics, it focuses on how power and resources are distributed and contested in different contexts, and the implications for development outcomes. It gets beneath the formal structures to reveal the underlying interests, incentives and institutions that enable or frustrate change. Such insights are important if we are to advance challenging agendas around governance, economic growth and service delivery, which experience has shown do not lend themselves to technical solutions alone.

Political economy analysis is not a magic bullet for the resolution of intractable development problems. However, it can support more effective and politically feasible development strategies, as well as inform more realistic expectations of what can be achieved, and the risks involved. It can also contribute to better results by identifying where the main opportunities and barriers for policy reform exist and how donors can use their programming and influencing tools to promote positive change. This understanding is particularly relevant in fragile and conflict-affected environments where the challenge of building peaceful states and societies is fundamentally political.

There are an increasing number of political economy tools available to development agencies for a range of analytical and operational purposes. This note brings together this material with a view to explaining the relevance and uses of political economy analysis. It is intended to be used by a wide range of DFID programme managers and advisers, as well as staff in other HMG departments and partner organisations. The main questions it addresses are:

- what is political economy analysis?
- how and why does political economy analysis add value to DFID work?
- what approaches and tools are available?
- how should the analysis be prepared, undertaken and applied to DFID's work?
- how should we work with other development partners and across HMG on analysis?

***Key messages*** include:

- Political economy analysis is central to the formulation of sound country plans and sector programmes, and can play a key role in risk mitigation and ensuring that donors avoid harmful practices.
- Political economy analysis can help to improve development effectiveness by identifying how and where donors should focus efforts to promote positive change.
- There are a growing number of operationally relevant tools which can be used to inform development strategies at the country or sector level, or in relation to particular development problems.
- Several DFID country offices have used political economy analysis to improve the quality and impact of aid. This experience provides valuable lessons that should be considered when commissioning and undertaking political economy analysis.
- Where possible, analysis should be conducted on an ongoing basis with key partners in HMG and the wider development community to encourage shared understanding and joint action.

# How To Note

# Political Economy Analysis

## Contents



**Annexes**

## Purpose of the Note

The main purpose of this note is to provide guidance to DFID staff on the contribution of political economy analysis to development thinking, the range of tools and approaches available, and their application to country programming and other operational tasks. It is relevant to a wide audience of DFID programme managers and advisers, policy staff in other HMG departments, and partner organisations.

Over recent years DFID has invested considerably in political economy analysis through its ***Drivers of Change*** studies. This has yielded a growing body of experience within DFID on how political economy analysis can be used to strengthen understanding and programming. At the same time, interest in this work has grown more widely, and other organisations have developed a number of related tools and approaches. This note aims to bring this experience together in an accessible form, and to explain how the various tools can be used to strengthen DFID's thinking and practice at various levels. The annexes contain more in-depth guidance on the use of the tools, as well as good practice examples of how political economy analysis has been used in DFID work.

This note is complementary to the ***How To Note on Country Governance Analysis (CGA).*** CGAs are mandatory for all DFID offices preparing country plans, and current guidance underlines the importance of robust political economy analysis within the CGA to explain governance outcomes and trends.

This note also complements ***DFID's new approach to State and Peace Building,*** as set out in the latest Development White Paper, *Building Our Common Future*[1]. A forthcoming guidance note will be developed on how we can support ***inclusive political settlements***, which is central to our agenda in conflict-affected and fragile states.

The majority of the tools and approaches included in this How To Note can be found Political Economy Analysis Topic Guide of the Governance and Social Development Resource Centre (www.gsdrc.org/go/topic-guides/political-economy-analysis). Additional links and a selected bibliography are provided on pages 27-29.

# 1 What is political economy analysis? Why is it important for DFID?

1.1 Despite its long tradition in social sciences, political economy analysis has only been taken up relatively recently by development agencies with a view to informing aid strategies and programmes[2]. There is no single conceptual framework for political economy analysis, but the following ***OECD-DAC definition*** is useful in capturing some of the main elements:

> *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*.[3] [See also Glossary for definition of basic political economy terms]

1.2 This definition draws particular attention to ***politics***, understood in terms of contestation and bargaining between interest groups with competing claims over rights and resources. However, it is equally concerned with the ***economic processes*** that generate wealth, and that influence how political choices are made. In reality these processes are closely inter-related and part of a unified set of dynamics which influence development outcomes.

1.3 Political economy analysis is particularly useful for development practitioners since it helps us to understand what drives political behaviour, how this shapes particular policies and programmes, who are the main "winners" and "losers", and what the implications are for development strategies and programmes. Specifically, it is concerned with understanding

- The ***interests and incentives*** facing different groups in society (and particularly political elites), and how these generate particular policy outcomes that may encourage or hinder development.

- The role that ***formal institutions (e.g. rule of law, elections) and informal social, political and cultural norms*** play in shaping human interaction and political and economic competition.

- The impact of ***values and ideas***, including political ideologies, religion and cultural beliefs, on political behaviour and public policy.

1.4 In this way, political economy analysis helps us to understand how incentives, institutions and ideas shape political action and development outcomes in the countries where we work. As we shall see, this can be extremely useful when thinking about the feasibility of policy reform and institutional change, the contribution that DFID and other donors can realistically make, and the risks involved.

**How can political economy analysis add value to our work?**

1.5 ***There is increasing recognition across both the academic and aid literatures that development is fundamentally a political process in key respects***[4]***.*** The 2006 Development White Paper, *Making Governance Work for the Poor,* argued that the fight against poverty cannot be won without capable and accountable governance, and that this is largely contingent on getting the right kind of politics[5]. **The latest White Paper, *Building our Common Future*, further underlines the need for DFID staff to think politically** if we are to respond effectively to the current challenges posed by the global economic crisis, climate change and conflict-affected and fragile states. Specifically, it reinforces the need for a new approach to building peaceful states and societies in which:

"….*the UK will increasingly put politics at the heart of its action. We need to understand who holds power in society so we can forge new alliances for peace and prosperity…..In the future, understanding political dynamics will shape more of our programmes. This will change the decisions we make about how we spend our aid budget, what we want to focus on and who we want to work with*"[6].

1.6 This represents ***a major step change*** from past practice, when development agencies frequently saw their role primarily in terms of the provision of financial and technical assistance to promote particular agendas around governance, growth or service delivery. The tendency was to dispense advice on what 'should' be done, without considering adequately the constraints and opportunities created by the political environment. Political economy analysis, in contrast, encourages donors to think ***not only about <u>what</u> to support, but also about <u>how</u> to provide support, taking political feasibility into account.*** Table 1 below shows how the use of political economy analysis brings an additional set of insights across a range of tasks and issues in which we are routinely involved at the country level.

1.8 ***Political economy analysis is not a magic bullet or quick fix to development problems.*** But experience to date suggests that it can help to:

- <u>Contribute to a shared understanding</u> of the political context and how it affects our overall aid strategy.

- <u>Inform better policy and programming,</u> through the identification of feasible, realistic solutions to development challenges.

- <u>Support risk management and scenario planning</u>, by helping to identify the critical factors that are likely to drive or impede significant change in the future.

- <u>Broaden the scope for dialogue</u> with donors and country partners around key political challenges and opportunities at the country and sector level.

- <u>Promote coherence across HMG</u> around a common analysis of the underlying political and economic processes shaping development.

1.9 Political economy analysis has often been perceived as primarily concerned with identifying obstacles and constraints. However, increasingly it is being used to

***identify opportunities for leveraging policy change and supporting reform***. By better understanding the political constraints that partner governments face, we can work more effectively with them to identify "second best" reforms in key sectors like health, education and roads[7]. In this way, analysis can ***help foster country ownership and contribute to improved prioritisation and sequencing of reform efforts***.

1.10 In fragile environments, political economy analysis can ***inform our work on state building and peace building*** by identifying entry points for promoting an inclusive and stable political settlement. This might include measures to promote political reform, strengthen the core functions of the state, or improve the delivery of services that build state legitimacy and respond to societal expectations***. It can also identify how we might work outside the state to build progressive change coalitions*** across civil society, the private sector and the media.

1.11 Political economy analysis can also be used to better understand the impact of various ***external drivers*** (e.g. trade, international corruption, climate change, the media) on domestic governance and political processes. This includes recognising the role that donors play as political actors, as well as providers of aid. Good quality analysis can enable ***donors to critically assess their own incentives and interests in partner countries***, and ensure they "do no harm" through their projects and programmes. This includes flagging up where external interventions may unwittingly undermine the institutional fabric of a partner country or fuel conflict, as was the case in Nepal in the mid 1990s (see Box 9 below).

1.12 The message is clear therefore: ***political economy analysis is not only important for increasing our understanding, but it can play a key role in changing the way we work.*** Box 1 below illustrates how it can add value to our work on economic growth.

**Box 1: Complementing Growth Diagnostics with a Political Economy Approach**

DFID offices are increasingly focused on the promotion of sustained economic growth in partner countries. "Growth diagnostics" and other tools are being used to identify key constraints and policies to alleviate them. At the same time, there is growing recognition that technically sound policy prescriptions can fail for lack of effective political support.
What is needed therefore is a political economy approach, which can help identify how to overcome particular economic constraints given the prevailing political reality.

For instance, a growth diagnostic may indicate that inadequate and unreliable electricity supply is currently the most binding constraint to growth. This may be caused by pricing policies and weak management within the public power companies. Political economy analysis might show that these problems relate to systems of political patronage governing access to subsidised power and protected public employment. The analysis might go on to identify ways in which new institutional arrangements and "second best" policies could be devised to mitigate the impact of patronage politics, or ways in which relevant interest groups from the private sector or civil society could become better organised to demand reform.

In this way political economy analysis can help to:

- Improve our understanding of the political obstacles and opportunities for growth.
- Enhance dialogue with the government around policy options for delivering improved growth.
- Inform medium-term strategies of engagement with civil society and the private sector to help overcome growth constraints.

## Table 1: How political economy analysis can inform DFID's country level work

| Tasks | Conventional donor analysis | Insights from political economy analysis |
|---|---|---|
| A) Formulating country plans (CPs) | Priorities for CPs determined on the basis of PRSPs or technical advice on the impact of alternative investment choices on poverty and growth. | Priorities reflect a deeper understanding of what interventions are likely to work, given prevailing interests and incentives. CPs also consider which interventions might help to shift incentives in a pro-development direction. |
| B) Choice of aid modalities and partners | Choice of aid modalities (including use of country systems) determined on the basis of fiduciary risk and broad assumptions about developmental benefits. | Choice is based on a specific understanding of how alternative modalities and partnerships fit into and influence incentives of different actors in the country. The underlying drivers of country-system improvement are considered. |
| C) Design of projects or programmes | Political risks affecting project success are relegated to the 'assumptions' column in the log frame, and revisited only if the intervention fails. | Interests and incentives, especially those created informally, are explicitly addressed in programming. Interventions may seek to transform incentive structures, or work around them, but never ignore them. |
| D) Informing dialogue and engagement with partners | Political dialogue is formal and conducted as 'arm's length'. It focuses on governance and human rights standards, without reference to the deeper processes that underlie performance in these areas. | Dialogue with partners is sensitive to the underlying causes of good and bad governance. This enables closer working relationships, and greater directness and mutual respect. More politically intelligent ways of working open doors and allow DFID to 'punch above its weight'. |
| **Issues** | | |
| E) Civil Service Reform | Policy and institutional reforms are typically prioritised on the basis of efficiency/equity considerations without considering the distribution of power and influence between opponents and beneficiaries. | Analysis identifies the room for manoeuvre – in other words, which reforms are likely to have political traction, which may be completely blocked and what sequencing devices might shift the balance of forces in favour of the intended beneficiaries. |
| F) State building and Peace Building | State building seen as a largely technical task of (re)creating the capacity to perform conventional state functions by restoring formal organisations. Peace settlements and security assistance set countries on the road to avoiding recurrence of conflict and rebuilding their states. | Support to state-building takes account of the underlying 'political settlement'. Tasks are carefully prioritised and sequenced, taking trade-offs into account. Peace building strategies based on understanding the root causes of conflict and promoting an inclusive political settlement, which goes beyond support to an initial peace agreement. |
| G) Service Delivery | Poor service delivery outcomes are attributed to a range of technical, financial, capacity and organisational weaknesses within the sector concerned. | Analysis identifies how and why different sectors are prioritised, and who the "winners" and "losers" might be. Action is informed by an understanding of these constraints, where the most appropriate entry points might be, and the medium-term strategies to help overcome obstacles. |
| H) Growth | Growth diagnostic tools identify specific factors or 'binding constraints' that hold back growth in different contexts and at different points in time. | The deeper causes of failure to address the binding constraints to growth are identified. On this basis, growth policies take into account feasibility or include actions to strengthen pro-growth coalitions. |

# 2 What are the main approaches and tools for conducting political economy analysis?

2.1 ***In recent years, there has been a rapid expansion of the tools and guidelines used by donor agencies in the field of governance and politics***[8]. The main political economy tools are described, along with a summary of their strengths and limitations, in Annex A. From the available tools, three major uses of political economy analysis can be distinguished:

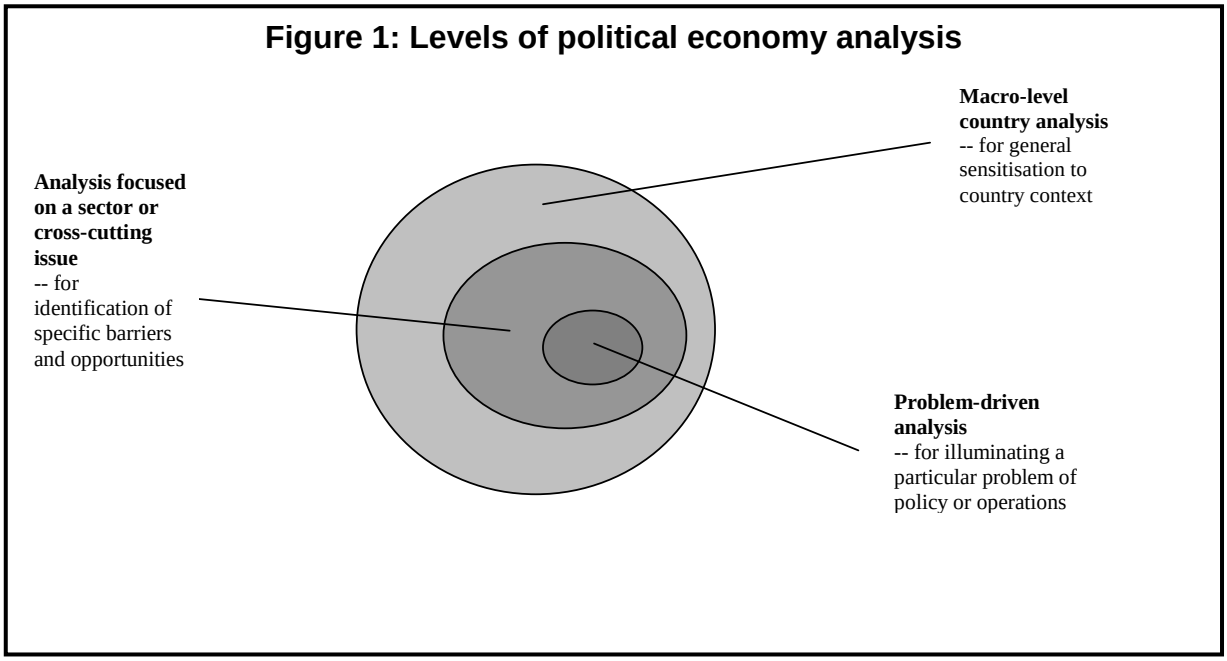
- **Macro-level country analysis**, to enhance general sensitivity to country context and understanding of the broad political-economy environment. This can be useful to inform country planning processes and the overall strategic direction of DFID country programmes.

- **Sector-level analysis**, to identify specific barriers and opportunities within particular sectors where DFID is working e.g. health, education, roads.

- **Problem-driven analysis,** geared to understanding and resolving a particular problem at the project level, or in relation to specific policy issue e.g. growth or public financial management reform.

2.2 ***Figure 1 depicts the relationships between these three different levels of political economy analysis.*** The important point is that sector-level and problem-focused exercises are not *alternatives* to macro-analysis. They are rather ways of pursuing questions in greater depth, bringing analysis closer to the operational concerns of staff and linking it directly to problems that pose special challenges. As a rule, sector-level and problem-driven analyses pre-suppose that a satisfactory macro-analysis has been completed and can be built upon.

**Figure 1: Levels of political economy analysis**



## Country Level Analysis

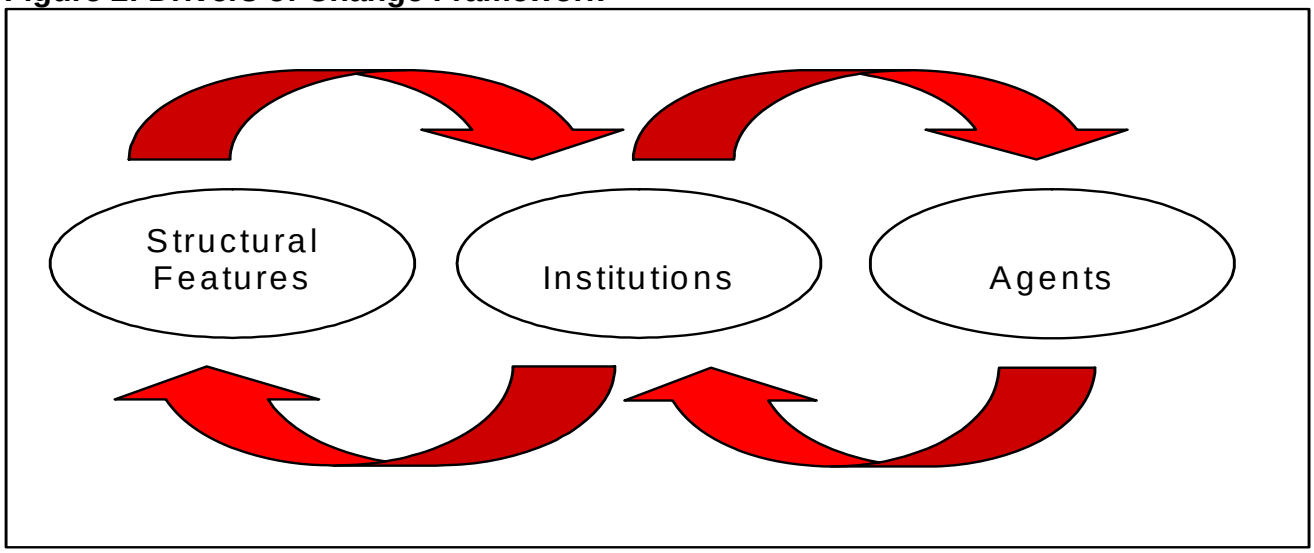
2.3 ***DFID's Drivers of Change (DoC) approach*** was one of the first attempts by a donor agency to understand the political economy environment at the country level. The ***key question addressed by DoC is how policy and institutional reforms that benefit poor people emerge and endure, or why in many cases they are blocked***. The aim is to identify what factors (the drivers of change) will create incentives for change over the short, medium and long-term. The approach considers the dynamic interaction between three sets of factors (represented in Figure 2), which vary over different timescales:

- ***Structures***, defined as the long-term contextual factors. Generally, these are not readily influenced, either because of the time scale needed, or because they are determined outside the country. Examples include economic and social structures, geo-strategic position, natural resource endowment, demographic shifts, climate change and technological progress.

- ***Institutions***, which can be *formal* in the sense of constitutional rules and codified laws, or *informal* in the sense of political, social and cultural norms. In settings where formal institutions (e.g. the rule of law, elections, separation of powers) are weakly embedded and enforced, informal norms often explain how things really get done. In many developing countries, there are tensions between formal rules and informal power relations, sometimes making politics unpredictable and prone to conflict.

- ***Agents***, including internal actors such as political leaders, civil servants, political parties, business associations, trade unions, CSOs etc., and external actors such as foreign governments, regional organisations, donors and multinational corporations.

**Figure 2: Drivers of Change Framework**




2.4 Since its launch in 2003, DFID has conducted Drivers of Change studies in over 25 countries. A number of reviews have explored how these studies have been

used by country offices[9]. These reviews concluded that DoC has benefited DFID's strategies and programmes in a variety of ways e.g. by helping to improve political analysis in Country Plans, informing a greater awareness of risks, and enhancing in-country dialogue around governance and politics. However, experience has also revealed certain limitations to the Drivers of Change approach. One problem has been the inconsistency in methodology and variability in quality across DoC studies. Another difficulty was that some of the initial Drivers of Change Studies did not sufficiently translate analytical findings into operational recommendations.

2.5 Most of the early studies described political economy problems in a general sense, but did not examine political processes in detail, which limited their ability to explain how particular agents operate within the political system and the actual mechanisms that they may use to bring about change. The ***Politics of Development Approach*** (see Box 2 below) attempts to fill this gap by analysing the dynamics of a political system in more depth.

**Box 2: The Politics of Development Framework**

The Politics of Development (PoD) framework is a tool to help DFID staff carry out political analysis. It is is designed to help us think systematically about ***how political decisions are made***. The framework highlights four elements of a political decision making process:

a) the wider historical, socio-economic and cultural ***environment,*** including the ***legitimacy*** of a given political process;
b) the immediate ***pressures*** coming from groups and interests who influence, but do not make political decisions;
c) the ***processes***, both formal and informal, through which decisions are actually made; and
d) the continuing politics of ***implementation*** that determine the implications, if any, of political decisions.

The PoD can be used to explore political dynamics at a country level or within a specific institutional arena (e.g. health sector ) to inform the design of an assistance programme. It can also be applied in a diagnostic fashion to investigate specfic questions (e.g. why do budgetary allocations follow a specfic pattern?). By applying this analysis of the decision-making process, staff will be better equipped to identify where the constraints/opportunities to policy reform and implementation lie, and how donor intervention might contribute to positive change. PoD has not yet been widely used in DFID, but some examples include a study of the justice sector in Yemen and recent work on education policy in Ghana.

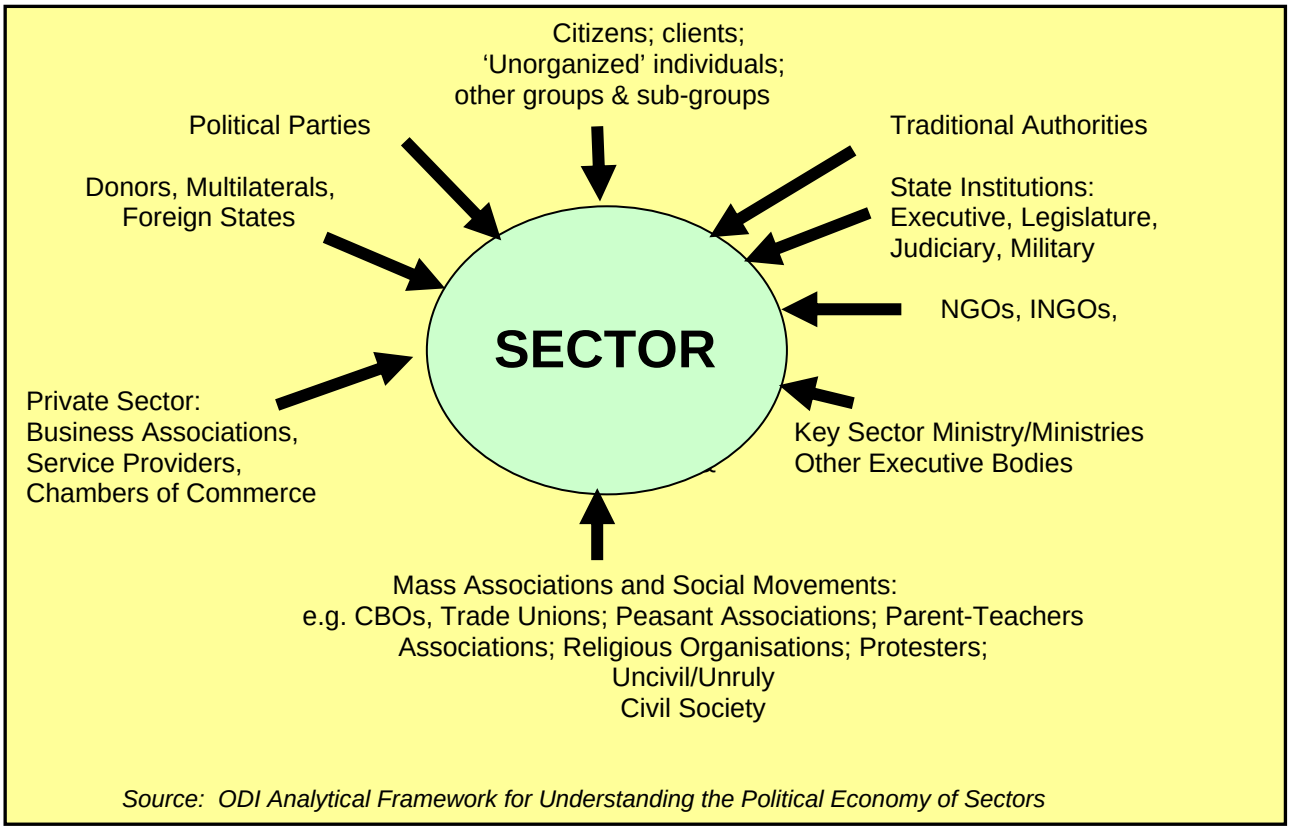
2.6 A number of other donors have also developed country level analytical tools to help explore the impact of political economy factors on development programming. This includes ***SIDA's Power Analysis*** and the ***Strategic Governance and Corruption Analysis (SGACA***) developed by the Netherlands' Ministry of Foreign Affairs. The SGACA has been applied systematically during the period 2007-2009 in 35 countries receiving Dutch Aid. SGACA uses a conceptual framework that is similar to Drivers of Change, but seeks to embed this in a more structured process designed to feed into country planning. Once the analysis has been completed, the findings are then tested in workshop, which also considers the potential entry points for positive change and whether there is a need to realign the country strategy and key programmes.

**Sector Level Analysis**

2.7 While approaches such as Drivers of Change and the SGACA are helpful in informing donor country strategies, they may not provide a sufficient operational focus to guide programme design. As a result, ***several donors have developed specific sector analytical tools and approaches*** in order to unpack dynamics at the sector level and the implications for programming[10]. The most recent of these is the EC's *Analysing Governance in Sector Operations*, which includes a significant political economy component.

2.8 Political economy analysis at the sector level can be particularly useful in ***helping to explain why reforms in areas such as education, health and roads have stalled***; what incentives and constraints influence politicians, civil servants and other reformers in these sectors; and how donors might engage to facilitate policy change. Almost all sector tools involve an initial mapping of key stakeholders, as highlighted in Figure 3 below:

**Figure 3: Sector Stakeholder Map**




*Source: ODI Analytical Framework for Understanding the Political Economy of Sectors*

2.9 Once the key stakeholders have been identified, the next step is to identify who are the most influential actors, what are their interests and incentives, and how do these shape overall dynamics of the sector, including the feasibility of proposed policy reforms. The PoD Framework described in Box 2 above can assist with this. Some key questions to consider when conducting political economy analysis of sector are highlighted in Box 3 below:

**Box 3: Sample Questions for Conducting Sector Level Political Economy Analysis**

**Roles and responsibilities:** Who are the key stakeholders in the sector? What are the formal/informal roles and mandates of different players? What is the balance between central/local authorities in provision of services?

**Ownership Structure and Financing:** What is the balance between public and private ownership? How is the sector financed (e.g. public/private partnerships, user fees, taxes, donor support)?

**Power Relations:** To what extent is power vested in the hands of specific individuals/groups? How do different interest groups outside government (e.g. private sector, NGOs, consumer groups, the media) seek to influence policy?

**Historical legacies:** What is the past history of the sector, including previous reform initiatives? How does this influence current stakeholder perceptions?

**Corruption and rent-seeking:** Is there significant corruption and rent-seeking in the sector? Where is this most prevalent (e.g. at point of delivery; procurement; allocation of jobs)? Who benefits most from this? How is patronage being used?

**Service Delivery**: Who are the primary beneficiaries of service-delivery? Are particular social, regional or ethnic groups included/excluded? Are subsidies provided, and which groups benefit most from these?

**Ideologies and Values**: What are the dominant ideologies and values which shape views around the sector? To what extent may these serve to constrain change?

**Decision-Making:** How are decisions made within the sector? Who is party to these decision-making processes?

**Implementation Issues:** Once made, are decisions implemented? Where are the key bottlenecks in the system? Is failure to implement due to lack of capacity or other political-economy reasons?

**Potential for Reform:** Who are likely to be the "winners" and "losers" from particular reforms? Are there any key reform champions within the sector? Who is likely to resist reforms and why? Are there "second best" reforms which might overcome this opposition?

*Sources: ODI Analytical Framework for Conducting Political Economy Analysis in Sectors; World Bank Problem Driven Governance and Political Economy Analysis*

2.10 Following the completion of the analysis, it is then important to consider where the potential entry points for donor engagement might be and how an intervention might be appropriately sequenced to deliver the best results. This requires an assessment of the feasibility of objectives in relation to sector reform and options for working with reform champions, where they exist, or a broader constituency of interest groups outside government, where they do not. While the operational implications will not always be clear-cut, having mapped the sector and analysed the key political-economy trends, donors are in a better position to design sectoral interventions which are both technically sound and politically feasible.

**Problem Driven Analysis**

2.11 Political economy analysis can also be deployed to ***enhance understanding and resolve a particular problem at the project level, or in relation to specific policy issue***, which may cut across a number of sectors e.g. growth or public financial management reform. The World Bank has been at the forefront of work to develop a *"problem driven framework to governance and political economy analysis"*, which they define as being *"focused on specific issues and challenges rather than developing broad overviews, in order to generate operationally relevant findings and implications".* It is emphasised that *"problem-driven"* does not mean focussing exclusively on areas of difficulty, but also identifying opportunities and learning from where success has been achieved.

2.12 This framework encourages users to distinguish between three layers, represented in Figure 4 below:

(i) Identifying the problem, issue or vulnerability to be addressed;
(ii) Mapping out the institutional and governance weaknesses which underpin the problem; and
(iii) Drilling down to the political economy drivers which constrain or support progressive change.

***Figure 4: Problem-Driven Framework***

| | | | |
|---|---|---|---|
| **What vulnerabilities/ challenges?** | | Evidence of poor outcomes to which GPE weaknesses appear to contribute. | Eg: repeated failure to adopt sector reform and poor sector outcomes. Continuous food insecurity. Corruption continues to undermine the business climate even after anti-corruption law. |
| **Problem Driven Governance And Political Economy Analysis** | Institutional & governance arrangements & capacities | What are the associated institutional set-up and governance arrangements? | Mapping of relevant branches of gov't, ministries, agencies & their interaction.<br>Existing laws & regulations.<br>Policy processes (formal rules & de facto). |
| | Political economy drivers | Why are things this way? Why are policies or institutional arrangements not being improved? | Analysis of stakeholders, incentives, rents/rent-distribution, historical legacies & prior experiences with reforms, social trends & forces (eg ethnic tensions) and how they shape current stakeholder positions and actions. |

*Source: World Bank Problem Driven Governance and Political Economy*

2.13 The advantage of the problem driven approach is that it encourages users to delve deeper to understand why a specific problem has not been successfully addressed. In this way, it can help practitioners think about feasible policy and institutional reforms to overcome particular obstacles, and in so doing promote better development results. DFID has also developed a number of sectoral and issue-based tools and frameworks to guide staff in applying a political economy analysis to their day to day work, which are described in Box 4 below.

**Box 4: DFID sectoral and issue-based political economy tools**

Analytical Framework for Understanding the Political Economy of Sectors: A useful tool for conducting sector level analysis. It includes a four step-process and checklist of key questions for applying political economy analysis and linking this to operational outcomes.

Politics of the Budget: The guidance reinforces the need for political understanding of the budget process to underpin technical knowledge of public financial management systems. It includes operational guidance on how to undertake politics of the budget reviews.

Making Markets Work for the Poor: The "M4P" tool provides a political economy perspective to the fields of private sector and market development. This includes a framework for understanding 'political markets' and the role that vested interests, weak institutions and co-ordination failures can play in distorting market access, particularly for poor people.

## Global Drivers and the International System

2.14 Given the increasingly interdependent nature of current global system, there is a growing interest in understanding ***the impact of regional or global drivers on domestic change processes.*** Political-economy analysis conducted at the country level should explicitly seek to capture how regional and international factors influence politics and shape the interests and incentives of political elites. This will vary between contexts—for example, some countries are more exposed to international influences due to dependence on natural resources or aid, or by virtue of their geostrategic position. Post-conflict contexts in particular (e.g. Bosnia and Afghanistan) will be heavily shaped by the military or political involvement of foreign powers or international organisations. Some of the key external factors that should be taken into account when analysing the prospects of change include:

- Regional economic and political arrangements (e.g. East Africa Community, Africa Union);
- Relations and/or conflict with neighbouring countries, or guerilla armies/militias located in border areas (e.g. Somalia/Kenya, Rwanda/DRC);
- Licit and illicit trade in high value commodities (e.g. oil, diamonds, drugs)
- Migration flows and remittances from workers overseas;
- The role of donors, particularly in highly-aid dependent contexts;
- Drivers of good governance including the global media, international human rights norms, and multi-stakeholder initiatives, such as the Extractive Industries Transparency Initiative (EITI).

2.15 Political-economy analysis can also be deployed to help inform ***DFID's own approach to influencing regional organisations and the wider international system***. Examples of this are provided in Boxes 11 and 12 below.

# 3 What has been the experience of using political economy analysis in DFID work?

3.1 This section provides a number of examples ***of how political economy has been used to strengthen DFID work at the country level, as well as in relation to particular sectors, problems and issues,*** and what the impact has been on DFID strategies, programmes and ways of working.

3.2 **Country planning**: As already noted, DFID country offices have usually commissioned Drivers of Change or similar studies as an input into country planning processes. In several cases, this has helped political-economy thinking to "enter the bloodstream" of the office concerned, leading to significant shifts in programme focus and ways of working. In DFID Nigeria, for example, political economy analysis has been undertaken on a systematic basis following the initial Drivers of Change work to inform country planning and programming (see Box 5 below).

**Box 5: Country planning and programming in Nigeria**

Since DFID Nigeria began its work on Drivers of Change in 2003, there has been a fundamental shift in programme priorities and ways of working. The initial study challenged many of the assumptions underpinning DFID's previous strategy, and led to critical thinking on how DFID, as a medium sized donor, could achieve influence in the context of low aid dependency, massive oil revenues, weak public institutions and unmet reform expectations following the resumption of democracy. Subsequent Country Plans have marked a change in approach that included focusing DFID support on selected issues where political economy analysis has pointed to a greater feasibility of reform and supporting coalitions of actors with the potential to bring about change. This led to the development of several new programmes at the national and state level whose design was closely informed by political economy analysis.

The *Coalitions for Change* Programme was one of DFID's new programmes that arose from the 2004 County Assistance Plan. The aim of the programme was to establish mechanisms for improved communication between government agencies, civil society and the private sector as a means to promote accountability and encourage greater government responsiveness. There was a strong focus on bringing together potential change agents in coalitions (e.g. around participation of women in elections), and on strengthening civil society capacity to engage with government agencies. This has resulted, for example, in the establishment of the first joint government and civil society initiative on anti-corruption issues, which has made an important contribution to increased public action against corruption in recent years.

3.3 **Designing sector programmes:** There are a growing number of examples of how political economy analysis has been used to inform project or programme design. Work is now underway across DFID to pilot political economy analysis in a number of key sectors including water, health, agriculture and roads. In some cases, political economy analysis has led to the development of new programmes to capitalise on opportunities for positive change. Conversely, where it has pointed to the existence of significant political obstacles to project objectives, some programmes have been discontinued or radically redesigned to minimise the risks.

The examples from DFID Bangladesh and Uganda in Box 6 serve to illustrate these different impacts on individual programmes.

**Box 6: Use of political economy analysis in the design of sector programmes.**

**Safe drinking water and arsenic control in Bangladesh**: In 2005, DFID was planning to develop a programme with the Government of Bangladesh (GoB) for effective service delivery of safe drinking water and arsenic mitigiation. Prior to the submission of the project memorandum, DFID Bangladesh commissioned a political economy analysis to describe the incentives for and barriers to, achievement of project purpose. This highlighted serious political and institutional impediments within GoB and significantly higher risks to programme delivery than had previously been envisaged. As a result, DFID decided that it would not proceed with the proposed programme with the government. Instead, the assessment recommended a different approach which aimed at working on the demand-side with water users to strengthen pressures for better agency performance.

**Road building in Uganda**: DFID Uganda has recently undertaken political-economy work to inform its design of support to a national roads programme. The purpose of the study was to understand the opportunities and risks arising from recent institutional reforms within the sector, including the creation of a new roads agency. A key finding was that while the institutional reforms have created certain opportunities for improved public investment in Uganda's roads, some important political-economy obstacles remain. These relate to operation of longstanding patronage networks involving public and private sector actors who are opposed to change. It was therefore concluded that a large package of donor technical and financial assistance would be unlikely to deliver significant improvements. Instead, a programme is being designed which will focus on shifting incentives over the medium term. This will include activities to build alliances between potential pro-reform actors within government, the roads agency and the private sector, and to develop mechanisms to foster greater accountability to parliament, civil society and the wider public.

3.4 **Informing growth strategies:** As already described in Section 1, political economy analysis can make an important contribution to our work on economic growth, by helping us to better understand the underlying constraints to growth and the political feasibility of different growth strategies. It can also help inform donor action to promote pro-growth coalitions, as illustrated in the example from Nicaragua below.

**Box 7: Promoting Coalitions for Growth in Nicaragua.**

Working closely with the World Bank and the Inter-American Development Bank, DFID undertook political economy analysis to better understand the political constraints and institutional blockages to pro-poor growth. The study found that the dynamics between the government, donor community and private sector were creating a weak investment climate. A new programme was designed to help overcome a number of the identified constraints. This programme helped to create the conditions for a more constructive dialogue between government, the international financial institutions and the private sector, leading to noticeable improvements in the business climate for small and medium enterprises.

3.5 **Choosing aid modalities:** Political economy analysis can be used to complement Fiduciary Risk Assessments (FRAs) to inform choices about aid modalities, including budget support and sector-wide approaches. In addition to assessing the technical features of public financial management and anti-corruption efforts, the political context is also being assessed, taking a step beyond the checklist provided in the FRA guidance.[11] Box 9 provides an example of how political economy analysis was used to inform DFID's approach to strengthening the budget process in Malawi.

**Box 8: The ''budget as theatre'': A new approach to public financial management in Malawi**

DFID Malawi undertook a study of the political economy of the budget process in 2004, which indicated that the budget process was "a theatre that masks real distribution and spending". The study got behind the façade of the formal budget process, to reveal a process dominated by informal practices that reduced transparency and adversely affected the distribution of resources. It recommended that DFID should complement its budget support by seeking to strengthen groups outside of the executive branch in order to promote demands for increased accountability. This led to the development of a new 2005-09 programme 'Tikambirane' (meaning 'Lets Talk'), which has directly contributed to:

- more active civil society scrutiny of the budget process;
- more effective parliamentary Public Accounts Committee scrutiny of the budget, including calling line ministries to appear before hearings;
- increased pro-poor budget allocations, 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.

3.6 **Informing state building and conflict reduction:** DFID's emerging agenda around state and peace building emphasises the importance of inclusive political settlements for the development of effective state institutions and long-term conflict reduction[12]. In fragile and conflict-affected environments, it is therefore critical to understand the nature and composition of the political settlement and the type of support donors can legitimately provide to strengthen it. In addition to the various political-economy tools covered in the previous section, DFID has also developed a specialised tool, the ***Strategic Conflict Assessment***, to help promote our understanding of the structures and dynamics of conflict, and the relationship of our development programmes to conflict. The example from Nepal in Box 9 below shows how systematic political-economy and conflict analysis has been used to inform DFID's evolving approach to state and peace building in recent years.

**Box 9: Supporting conflict-reduction and state-building in Nepal**

Political economy and conflict analysis has become central to DFID's way of working in Nepal, helping to shape the DFID, and to some extent HMG, approach over a number of years. Initially, DFID had treated the civil war as an obstacle to be worked around. But a Strategic Conflict Assessment in 2002 suggested that donors were inadvertently channelling aid in ways that deepened social exclusion processes, thereby contributing to the continuation of the conflict. A major re-orientation of programmes was the result. This included working with the government where it had some will and capacity, while also supporting parallel mechanisms where the government could not operate, such as micro-level community development.

With the end of the civil war and the election of a new government in 2008 led by the former Maoist rebels, DFID Nepal commissioned further political economy and conflict analysis to inform its evolving approach under a new Country Plan. This included major studies on new sources of regional conflict; the political economy of growth; and the role of the trade unions. Taken together, these exercises have helped the office think through how they can most effectively support the emerging political settlement, economic development and state-building, without re-igniting conflict.

3.7 **Enhancing the quality of dialogue and engagement with partners:** Beyond concrete changes in programming and approach, political economy analysis is also important for informing the way we engage country partners – and thus helps to strengthen our relationship-building and influencing skills. The Palestinian and Latin American examples in Box 10 illustrate a more general point – that the value of political economy analysis often lies not only in the resulting changes to programmes, but also in the effect it has on the way we work and interact with partners. ***Political economy analysis can make us more politically intelligent interlocutors and more effective operators.***

**Box 10: Improving the quality of dialogue and influencing**

**Public service reform in the Palestinian Territories**. DFID's public sector reform project was strengthened following a study of political economy of the Palestinian Authority by local academics. By increasing their understanding of the context, the DFID project team were able to adopt a working style that was viewed by their Palestinian counterparts as showing a high degree of local knowledge and sensitivity. This allowed the project team to be both more understanding of the obstacles to reform and more robust in pushing for change in areas where it was feasible (e.g. in the area of medium-term planning and budgeting). While the Palestinian reform plan that has emerged with DFID support has more modest objectives than previous plans, it is viewed as being more credible, with a greater degree of domestic political ownership.

**DFID's approach in Latin America**. A recent evaluation of the three main programmes supported by DFID during 2005-8 (on pro-poor trade, local governance and political parties) points to advisers' understanding of the local political economy as a major cross-cutting success factor. The calibre of this work owed much to DFID's employment of locally recruited advisory staff with a good 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 of country level political issues, to get out of the office and engage with potential partners, and to design programmes using a political-economy approach. Taken together, these factors enabled DFID to 'punch above its weight' in achieving policy influence within countries and regionally via the World Bank and Inter-American Development Bank.

3.8 **Informing regional approaches:** Political economy analysis can be applied to the understanding of regional processes, as a means to understand the varying interests of different states, and how this may affect their relations and progress in regional economic and political integration. One example is DFID's support to the East African Community described in Box 11.[13]

**Box 11: Informing DFID's approach to East African Integration**

In 2006 DFID commissioned a study to help better understand the political-economy context for East African integration and opportunities for DFID engagement. This revealed how the East African Community (EAC) is creating new opportunities for the mobilisation of pressure groups and interest alliances across national boundaries. In so doing it helped structure a new DFID Regional East African Integration Programme (REAP) which utilises a tripartite approach to regional integration through support to the EAC, national governments and the private sector/civil society.

3.9 **Informing engagement at the international level:** Political economy analysis can also be used to strengthen DFID's engagement in multilateral processes and other international initiatives (e.g. around climate change, trade, and the provision of global public goods)**.** A political economy perspective can help us to better understand the interests of different stakeholders within the international system (e.g. country governments, international organisations, global civil society, multinational corporations); the potential for building international coalitions around issues of shared concern; and how DFID/HMG might best deploy its leverage and influence to promote positive change. Several studies have been commissioned by DFID to inform our approach to multilateral engagement, including the example from the Medicines Transparency Initiative below.

**Box 12: Getting the best out of the Medicines Transparency Initiative (MeTA)**

MeTA is a multi-stakeholder initiative that aims to increase access to medicines for poor people by increasing transparency and accountability in the pharmaceutical sector. Early in the design phase of MeTA, DFID commissioned the Harvard School of Public Health to undertake a political economy analysis at the international level using a specialised political economy/stakeholder analysis software called 'PolicyMaker'. This included a power-mapping analysis of the key players involved in the MeTA initiative, an estimation of their relative influence and their ability to facilitate or block change.

The analysis emphasised the often competing and entrenched interests of donor, country, multiple private sector and civil society stakeholders in the highly politicised field of pharmaceutical policy and the challenges this posed to multi-stakeholder working. It also yielded several strategies to strengthen stakeholder alignment including focusing initially on elements that could appeal across several stakeholder groups and using these to build foundations from which to address more divisive issues later. In this way, the political-economy analysis encouraged DFID staff to think systematically through how the various constituencies involved in MeTA were positioned, and implications for how the initiative needed to be modified to increase chances of success going forward.

# 4 Getting the process right

4.1 Political economy analysis should be viewed ***as a dynamic process rather than a static output***. The measure of success is not the conduct of the study itself, but the extent to which findings are integrated into the strategies and programmes of a country office, and ultimately contribute to improved results on the ground. Ideally, political economy analysis should become integral to the work of the office with knowledge being continuously updated over time and fed back into programming.

4.2 When undertaking a specific study, the following ***checklist*** should be used to ensure ***key process issues*** have been taken into account:

- ✓ What is the **purpose** of the exercise? What are the key exam questions which need to be interrogated?
- ✓ Is the **timing** right to feed into strategy, planning, reviews or other decisions? Is the length of process proportionate?
- ✓ Who is the primary **audience**? Are there tensions between different audiences, and how can these be managed?
- ✓ Is there sufficient **internal buy-in** to the importance of the analysis and its value for strategy and decisions?
- ✓ Is there a clear **owner** or champion with responsibility for taking forward the implications (e.g. Head of Office)?
- ✓ What mix of **skills and expertise** are required to undertake the work? Will it be conducted in-house, or are specialist consultant skills required?
- ✓ What **methodology** and data collection techniques will be used?
- ✓ Are the **right partners** (e.g. from HMG, donors and country partners) involved in the analysis to ensure it is robust and rigorous?
- ✓ What mechanisms are necessary to help broaden **participation** in the process?
- ✓ Has it been agreed how the work will be **disseminated,** and to whom? Do different products need to be created for different audiences?
- ✓ Is there an agreed process for **follow-up** once the analysis is complete?
- ✓ Have **indicators** been developed to assess the impact of the analysis on DFID programmes and processes?
- ✓ What **results** are we expecting from the work?

**Purpose, Audience and Timing**

4.3 As we have seen, political economy analysis can be conducted for a number of different purposes e.g. to increase internal understanding, inform programming, influence policy dialogue. Work can be commissioned for an internal or external audience, but it is very important to agree this at the outset as this will heavily influence how the research will be conducted, future dissemination and follow-up. Once the overall purpose and audience has been agreed, it is then important to identify the key questions which need to be examined. Research studies sometimes fail to answer the questions that are of concern to staff because they have not been clearly articulated in the initial Terms of Reference.

4.4 ***An exercise is likely to be most useful if it is clearly connected to a specific process or activity***, such as the design of a Country Plan or particular

intervention. Operational relevance can be lost if the timing of the exercise is such that all the significant decisions (e.g. whether to embark on budget support, or how to work in the health sector) have already been taken.

**Internal Ownership and Buy In**

4.5 Political economy exercises have been found to be more influential when they closely involve the ***Head of Office*** and DFID staff from a ***range of disciplinary perspectives***. While it is increasingly common for political economy analysis to be undertaken by external consultants, it is important that relevant staff are fully engaged in the process, particularly during the initial and the final stages of the work, to ensure that there is full buy-in to the process and that the analysis feeds into operational outcomes. Staff appointed in-country can have a particularly useful role in grounding the analysis in local realities and providing institutional continuity.

**Getting the right expertise**

4.6 Consultancy teams should ideally include members with ***expert knowledge of a country, as well as an understanding of appropriate political-economy methods***. There is now a small, but growing, pool of international academic and consultancy expertise for undertaking political economy work in the context of development programming. However, good ***local consultants*** are essential for advising on the process, conducting interviews, and interpreting the evidence gathered. Local consultants will have a much greater ability to get underneath the surface and interpret what is really driving the behaviour of key stakeholders.This is especially useful in environments where the political-economy context is marked by high degrees of informality and where there are few primary data sources.

**Ensuring methodological rigour**

4.7 While political economy analysis is not a hard science, ***guarantees of rigour and objectivity are important,*** and the analysis should follow some standard principles for conducting research. One key principle is ***the importance of triangulating data*** by drawing on as many sources of information as possible. This includes primary data sources such as existing academic research, other donor assessments, official documents (laws, regulations, organisational strategies), public opinion surveys and media reporting.

4.8 However, in many cases key information about the political-economy context will not be readily available in written form, and ***more in-depth qualitative research with key stakeholders will be required***. A range of techniques can be employed to build up a picture of the political-economy environment from local stakeholders (e.g. politicians, civil servants, business people, the media, NGOs etc.). This includes face-to-face interviews with key informants, focus group meetings, and stakeholder analysis workshops. The research should seek to ensure that the views of a representative sample of interviewees from different regions and ethnic/religious/social backgrounds are fully reflected.

**Working with Others and Dissemination**

4.9 A key decision when taking forward a political-economy analysis is whether to conduct the analysis as an independent venture or jointly with other partners. ***Joint analysis*** can add significant practical value by helping to develop ***a shared understanding of the political constraints and opportunities***. It can also provide the basis for joint action by identifying entry points for programming, as well as the risks of engaging in these areas.

4.10 ***There is an important distinction between joint analysis, and analysis that we share with others***. Joint analysis requires collaboration from the outset, including development of the ToRs, agreement on the expertise required, budget and time-frame, and full engagement with the emerging findings throughout the process. DFID's own analysis can be shared and disseminated, but this is much less likely to lead to a genuinely shared understanding of context, or to buy-in from others.

4.11 DFID country offices should ***therefore seek out opportunities to commission joint analysis with key partners at the country level***. As we saw in Section 2, a growing number of multilateral and bilateral agencies are interested in applying political economy analysis to their work. This indicates good potential for collaboration, whether it be with the World Bank on "problem driven" analysis, the EC on a sector governance assessments or the Netherlands and SIDA using their respective tool [14]**.**

4.12 DFID staff should also seek to ***work closely with other HMG partners, particularly the FCO and MoD, in undertaking political economy analysis***. This is particularly essential in fragile and conflict-affected countries where security, diplomatic and development objectives are inextricably linked[15]. The recent White Paper commitment to develop joint HMG strategies in all fragile countries where a substantial development programme exists makes this point clear[16]. Joint HMG analysis can help develop a shared understanding of context, and work through differences and tensions between departmental perspectives and preferred responses. It can also make an important contribution to various cross-Whitehall processes, such as Scenario Planning, and other tools used by HMG partners, such as Critical Path method and the Countries At Risk of Instability analysis[17].

4.13 ***The scope for engaging government and national partners on political economy analysis should be judged on a case-by-case basis***. Trade-offs are always likely between openness and transparency on the one hand, and the quality and rigour of analysis on the other. In difficult political environments, full disclosure of findings may serve to undermine relationships and fuel tensions. However, in more permissive contexts, the benefits of working with national governments and other partners can often outweigh the costs. Although joint analysis remains rare, numerous Drivers of Change studies have been published and shared with partner governments. Even where full disclosure has proved difficult, steps have been taken to at least disseminate key findings or summaries. This has often laid the basis for a more productive policy dialogue going forwards. As a rule of thumb therefore, DFID staff should strive for the greatest degree of transparency and engagement possible.

4.14 ***Civil society organisations (CSOs) provide important sources of information that can be incorporated into our analysis***. They can contribute during consultations or field work, or be commissioned to gather data and conduct analysis. In insecure environments, CSOs may be able to reach areas and groups that are inaccessible to DFID and other donors, and may be the most suitable partners to undertake the research. In such contexts, their analysis should be triangulated with other sources where possible.

**Follow Up and Measuring Impact**

4.15 Past experience suggests that the follow up stage is frequently neglected as consultants return home and staff attention turns to other matters. It is critical therefore that provisions are made at the outset for ***follow-up activities (e.g. action-oriented workshops) to ensure that the analysis feeds directly into strategies and programmes.***

4.16 To assist with this, ***staff should develop appropriate process and outcome indicators to monitor progress and impact over time.*** It will also be important to systematically evaluate the extent to which analysis has informed improved programme delivery and better results on the ground. As part of this, staff should put together short case studies or stories highlighting lessons learned and how the analysis has been used to inform day-to-day work. This will feed into an emerging body of evidence at the both country and global level on the contribution of political economy work to improved development practice and outcomes.

# 5 Conclusions and further guidance

5.1 This note has explained what political economy analysis is, and has shown how it can and should be used to strengthen DFID work. It is clear that political economy tools are relevant to a wide range of DFID advisers, programme managers and partner organisations. They have the potential to reduce the risks and improve the impact of particular interventions. They can also identify ways of working with partners that generate more mutual respect, avoid harmful practices and maximise DFID's development impact.

5.2 However, political economy analysis remains an emerging discipline in the development field. Whilst there has been a significant investment in country level analysis, there is scope for more work across the organisation to understand the political economy of sectors and specific development problems (e.g. climate change, growth, public financial management reform). Challenges also remain in terms of linking analysis to action and ensuring the right incentives are in place within DFID to operationalise findings.

5.3 Over the coming period, the DFID Politics and the State Team will invest in further learning in the following areas:

(i) Service delivery: A number of pilot studies will be commissioned with a view to drawing lessons about how these approaches can be applied in the fields of health, education, water and other key sectors.

(ii) Growth: Work is already underway in several DFID countries to complement core growth diagnostic work with a political economy perspective. A synthesis of these case studies and further guidance will be issued later in 2009.

(iii) The regional and international system: Further pilot work will be undertaken to inform how DFID staff can apply political economy analysis to their work on a range of regional and international issues (e.g. trade, climate change, multilateral reform).

(iv) Political Settlements: A forthcoming guidance note will be developed on how we can work to strengthen inclusive political settlements in fragile and conflict-affected states. This is part of the wider DFID agenda around peace-building and state-building, which is central to the recent Development White Paper.

5.4 This How To Note has provided basic guidance on conducting political economy analysis. Further information is provided in Annex A (Toolkits) and Annex B (Case Studies) as well as the relevant links and selected bibliography below.

5.5 For further information or advice on taking forward political economy analysis please contact the Politics and the State Team in Policy Division.

## Endnotes

[1] *Building our Common Future*, White Paper on International Development, 2009; See also *Building the State and Securing the Peace*, DFID, 2009.
[2] For review of first generation political-economy work by donors see OECD-DAC, *Lessons Learned on the Use of Power and Drivers of Change Analyses in Development Co-operation*, 2005.
[3] The OECD DAC definition of political economy analysis is available at: http://www.oecd.org/dac/governance/politicaleconomy; see also S. Collinson, *Power, Livelihoods and Conflict: Case Studies in Political Economy Analysis for Humanitarian Action,* Humanitarian Policy Group Report 13, Overseas Development Institute, 2003.
[4] In the academic literature key texts which highlight the importance of politics to development outcomes include: R.Bates, *Prosperity and Violence: The Political-Economy of* Development, 2001; P.Collier, *The Bottom Billion: Why the Poorest Countires are Failing and What Can be Done About It*, 2007; W. Easterly, *The White Man's Burden,* 2006; H. Kitschelt and S. Wilkinson, *Patrons, Clients and Policies:Patterns of Democratic Accountability and Political Competition*, 2007; D. North et *al Limited Access Orders in the Developing World: A New Approach to the Problems of Development*, 2007. In the aid literature recent work includes: *Our Common Interest: The Report of the Africa Commission*, 2005; Cabinet Office, *Investing in Prevention: An International Strategy to Manage Risks of Instability and Improve Crisis Response*, 2005; DFID, *Eliminating World Poverty: Making Governance Work for the Poor*, White Paper on International Development, 2006; DFID, *Governance, Development and Democratic Politics: DFID's Work in Building More Effective States*, 2007; IDB, *Policymaking in Latin America: How Politics Shapes Policies*, 2008.
[5] *Making Governance Work for the Poor*, 2006, p. 23.
[6] *Building our Common Future,* p.73
[7] There is a growing literature on the need for "second-best" and "good enough" approaches in both the governance and economics fields. See for example M. Grindle., *Good Enough Governance Revisited*, 2001, and D. Rodrik, *Second Best Institutions*, 2008.
[8] A comprehensive inventory of these instruments is provided in: *Donor Approaches to Governance Assessments: Sourcebook*, OECD-DAC, June 2008.
[9] See for example, N. Thornton and M. Cox, *Review of the Uptake of the Drivers of Change Approach: Report for DFID by Agulhas Consulting*, 2005; and D. McLeod, *Review of DFID's Drivers of Change Country Study Reports*, 2005.
[10] For a comprehensive review of sector tools, frameworks and approaches used by donors see (forthcoming) *Sourcebook on Sector Political Economy Analysis, David Steinhilper, ODI.*
[11] *How To Note: Fiduciary Risk Assessment*, Jan 2006, Box 3 and Annex 10. See also *Briefing: Understanding the Politics of the Budget*, Jan 2007.
[12] *Building the State and Securing the Peace*, DFID, 2009.
[13] David Booth et al., *Briefing: East African Integration: How Can it Contribute to East African Development?* London: ODI, ESRF, EPRC and IPA, 2007.
[14] The OECD-DAC has also recently developed a set of principles for the conduct of governance assessments, which underline the importance of harmonising assessments at the country level and limiting transaction costs for partners - see www.oecd.org/dataoecd/27/31/42338036.pdf . Although working jointly with other donors and country partners on political economy analysis is inevitably more challenging, these remain important guiding principles for all analytical work.
[15] For description of analytical tools and approaches used in fragile states, see *DFID Fragile States Practice Papers, Chapter 1 Analysing Conflict and Fragility*, 2009
[16] *Building our Common Future,* p.78
[17] See forthcoming guidance on Scenario Planning. For more on Countries at Risk of Instability Analysis see http://www.cabinetoffice.gov.uk/media/cabinetoffice/strategy/assets/5process.pdf

**Glossary: Key political economy terms**

***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

***Politics***
The processes of conflict, negotiation and cooperation between interest groups in the use, production and distribution of resources.

***Incentives***
Incentives are the driving forces of individual and organised group behaviour. They depend on a combination of: (i) the individual's personal motivations (material gain, risk reduction, social advancement, spiritual goals etc), and (ii) the opportunities and constraints arising from the individual's principal economic and political relationships.

***Interest groups***
Where individuals or organisations have similar aims and face similar incentives they may be recognisable as a distinct interest group.

***Institutions***
The rules, norms and conventions governing human interaction. Institutions may be *formal* in the sense of constitutional rules, codified laws and bureaucratic rule books, or *informal* in the sense of social and cultural norms. Political economy analysis pays particular attention to the informal norms that underpin social hierarchies, create and perpetuate power structures and generate reciprocal obligations. In settings where formal institutions are weakly embedded and enforced, informal norms often explain how things really get done.

***Patronage politics or patron-client relations***
A political system where the holders of power (patrons) seek to maintain their position by directing privileges at particular individuals or groups (clients) in a manner that is intended to strengthen political support and/or buy off political opponents. Patronage politics is a common explanation of why governments often direct resources at narrow groups of beneficiaries rather than the public good.

***Collective action and change coalitions***
Political economy analysis often describes a set of intractable problems where development is blocked by powerful interest groups. Change is unlikely to occur unless groups with a shared interest in reform work together for change. Collective action refers to the pursuit of a common goal by more than one person.

***Political settlement***
This phrase refers to the forging of a common understanding between a country's elites that their interests are served by acquiescing to a particular form of state. The presence or absence of a political settlement is the principal factor determing the stability of the state and feasibility of state-building processes.

***Rent and rent-seeking***
This refers to income generated by privileged access to a resource or politically created monopoly rather than productive activity in a competitive market. Some political systems revolve around the creation and allocation of such incomes – hence 'rent-seeking'.

## Links to Main Political Economy Tools and Approaches

Unless otherwise stated, the following tools and approaches mentioned can be found in the Political Economy Analysis Topic Guide of the Governance and Social Development Resource Centre website www.gsdrc.org/go/topic-guides/political-economy-analysis . The site also includes examples of drivers of change country studies conducted to date.

### Country-Level Tools and Approaches

DFID (2004) 'Drivers of Change, Public Information Note'.

DFID (2005) 'Briefing: Using drivers of change to improve aid effectiveness'.

DFID (2005) 'How-To Note: Lessons learned - planning and undertaking a DOC study'.

Prepared by Adrian Leftwich for DFID on the Politics of Development Approach (2007) 'Drivers of Change: Refining the Analytical Framework: A framework for Political Economy Analysis'

Prepared by the Clingendael Institute for the Netherlands Ministry of Foreign Affairs (2007), 'Framework for Strategic Governance and Corruption Analysis (SGACA): Designing strategic responses towards good governance'.

Swedish International Development Agency (2006). 'Power Analysis – Experience and Challenges'.

OECD-DAC (2008) 'Survey of Donor Approaches to Governance Assessment, Sourcebook'

### Sector and Issue-Based Tools and Approaches

European Commission, 2008 'Analysis and Assessing Governance in Sector Operations',

Prepared by Moncrieffe, J. and Luttrell, C. for DFID (2005) 'An Analytical Framework for Understanding the Political Economy of Sectors and Policy Arenas'.

World Bank (2009 - forthcoming) 'Problem-Driven Political Economy and Governance Analysis'.

DFID (2007) 'Understanding the Politics of the Budget: What drivers change in the budget process'.

PolicyMaker computer aided political analysis – www.polimap.com

### Related Tools/Approaches used by DFID/HMG

DFID (2002) Strategic Conflict Assessment methodology

DFID (2007) How to Note on Country Governance Analysis

Cabinet Office (2005). Countries at Risk of Instability: Risk Analysis and Strategic Analysis Process Manual,
http://www.cabinetoffice.gov.uk/media/cabinetoffice/strategy/assets/5process.pdf

Foresight Horizon Scanning Centre for HMG (2009, forthcoming). 'Scenario Planning - A Guidance Note'.

## Selected Bibilography

The below includes a number of reviews of political-economy work and some of the most illustrative DFID country examples. For a more comprehensive compendium of the relevant literature, see www.thepolicypracticelibrary.com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Oxford Policy Management (2003). 'Drivers of Pro-Poor Change in Nigeria'.

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Thornton, N. and Cox, M. (2005). 'Review of the Uptake of the Drivers of Change Approach', Review for DFID, Agulhas.

Unsworth, S. (2006). "Getting Better Governance: Insights from new research", Trocaire Development Review pp. 17 - 33.

Unsworth, S. (2006). 'Getting Real About Governance', IDS Policy Briefing Issue 26.

Unsworth S. (2008). 'Is Political Analysis Changing Donor Behaviour', Paper Prepared for the Conference of the Development Studies Association, London.

Van Breukelen, A.M., 2007, 'Drivers of Change: Understanding the Forces for Poverty Reduction in a Rich Menu for the Poor: Food for Thought for Effective Aiud Policies', Dutch Ministry of Foreign Affairs, Amsterdam.

Williams, G., Duncan, A., Landell-Mills, P. and Unsworth, S. (2009) Politics and Growth, *Development Policy Review 27(1)*: 5-31

Williams, G., et al. Policy Practice Brief 1 (2007): ‘Tackling the Political Barriers to Development: The New Political Economy Perspective’.

Williams, G. et al. Policy Practice Brief 2 (2007). ‘Making the New Political Economy Perspective more operationally relevant for development agencies’.

World Bank (2007). ‘Tools for Institutional, Political and Social Analysis of Policy Reform: A sourcebook for development practitioners’, Washington, D.C.

World Bank (2008). 'The Political Economy of Policy Reform: Issues and implications for policy dialogue and development operations', Washington D.C.