

Making development assistance more effective by using political economy analysis: what has been done and what have we learned?

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Alex Duncan and Gareth Williams

The Policy Practice Ltd

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Abstract

Politics often explains where development assistance has been effective and where it has not. Yet, until the 2000s there has been little focus by development agencies on political issues. This has begun to change with political economy analysis now being more systematically used by development agencies to understand the real world. Much valuable work has been done in recent years in developing new analytical frameworks, generating fresh insights and applying these to problem-solving. Nigeria and Bangladesh are two positive examples where PEA has demonstrated its analytical and operational usefulness. Much remains to be done in these countries and more widely, to ensure stronger uptake of political economy analysis. On the supply side this includes getting the 'product' right, and better communicating the message. On the demand side, there is a need to take more account of the incentives facing development agencies and to gather more systematic evidence on the operational impact of political economy analysis to date.

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Making development assistance more effective by using political economy analysis: what has been done and what have we learned? ¹

Political economy is understood to mean ‘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.’²

Introduction

The purpose of this paper is to contribute to an exchange of experience and information on the use of political economy analysis (PEA) by international agencies, and to reflect on the important, but uneven progress that has been made over the past decade.

The particular focus of the paper is on work led by the UK’s Department for International Development and the Netherlands Ministry of Foreign Affairs, with which the authors have been closely involved. Drawing on this experience, the paper will:

- Tell the story of how PEA is increasingly being used by development agencies to improve understanding of the problems they work on.
- Demonstrate with the aid of two examples – Nigeria and Bangladesh – how PEA can be operationally useful.
- Identify the strengths and weaknesses of political economy analysis as it has been used up until now.
- Set out some steps for the further development and application of PEA.

Where have we come from?

Development theory and practice as it emerged over the second half of the twentieth century was strangely ignorant of politics. Supporting development was largely seen in technical and financial terms – a formula of expertise and aid that was expected to generate growth, with little regard to the domestic political context. The various development paradigms that have come and gone have all embodied a technocratic view of development, and many have had disappointing results because they did not address the central role of politics. The table below sets out a highly simplified historical depiction of development thinking, each paradigm reacting to perceived shortcomings of the previous, but none grasping the importance of politics.

The rationale for the recent adoption of PE approaches is therefore to be seen as raising development effectiveness and aid effectiveness.

Period	Paradigm	Assumption	Perceived shortcomings
1950-60s	Financing gaps, capital spending	Fill the funding gap and growth will follow	White elephants, wasteful investment, elite corruption; poor people neglected
1970s	Basic needs and rural development	Fund basic services and the needs of the poor will be met	Large government; neglect of policy-related reasons for uneven development
1980s	Structural adjustment	Get the prices right and resources will be efficiently allocated	Ineffective conditionality – absence of political support Neglect of state-building
1990s	Institution building/ capacity development	Put in place developed-country models of formal institutions, and build local capacity to run them.	Ineffective and inappropriate institutional models.

Towards a political economy approach

In truth many people have been saying for decades that development is not just a financial and technical project. However, it was not until the 2000s that calls for a more political understanding of development became sufficiently vocal to influence the thinking of development agencies. Over the past decade a number of tools have been developed and applied – USAID’s democratic governance assessments, DFID’s Drivers of Change studies, the Power and Change Analysis of the Netherlands (part of the Strategic Governance and Corruption Analysis), SIDA’s power analysis, and the World Bank’s problem focussed PEA (see box below).

Rather than reviewing each in detail it is more helpful to highlight their general features and common strands of thinking, as follows:

1. *Emphasising the centrality of politics.* Examining how political power is secured, exercised and contested is central to understanding how, where and why development happens. Political processes generate incentives that may enable or block developmental types of behaviour.
2. *Downplaying the normative.* The starting point of at least some approaches to PEA is to try to understand country realities and to ground development strategies in these. This contrasts with the more conventional approach in governance analysis of defining a norm and seeking to understand why a country deviates from it.
3. *Identifying underlying factors that shape the political process.* Political economy approaches try to place current realities in the context of a country’s history, society and geography.

4. *Focusing on institutions.* Institutions are seen as key to determining the incentive frameworks that induce patterns of behaviour. Strong leadership and reform champions can play important roles as change agents, but in general it is difficult for individuals to bring about lasting change to the 'rules of the game'.
5. *Recognising that development agencies are political actors.* Development agencies are explicitly examined as politically influential players with their own geostrategic, commercial and developmental objectives. The very fact of their providing resources to selected beneficiaries changes the dynamics of political contestation.

Conceptual and methodological development – the sequence

One of the first agencies to develop and apply a framework drawing on ideas from political economy was USAID, which in 2000 published a document on 'Conducting a democratic governance assessment: a framework for strategy development' that has since been applied in many countries.³ The framework consists of four steps, analyzing respectively: the political game that characterizes the country; actors, interests, resources, and strategies; the institutional arenas (legal, competitive, governmental, and civil society), whose characteristics define the incentives that channel the behaviour of actors; and the interests and resources of the donors, including USAID.

Soon thereafter, the UK's DFID embarked on a process of developing its own framework. A senior DFID civil servant, Sue Unsworth, took time out in 2001/2002 to work at the IDS with Mick Moore and others, producing a seminal paper arguing that DFID needed to adopt a much more politically savvy understanding of the constraints to development.⁴ In 2002 this approach took shape with the first 'Drivers of Change' (DoC) country study completed in Bangladesh.⁵ The methodology was further developed in preparation for a major series of DoC studies in Nigeria.⁶ The DoC approach is based on examining the interactions between three sets of factors ---- structures, institutions and agents, with the first two combining to create incentives that shape the behaviour of the latter. Main features of the approach include: (a) institutions are at its heart; (b) the interactions are dynamic over time; (c) there is an emphasis on understanding informal realities, rather than the formal; (d) as with the USAID approach, there is a focus on donors as political actors; and (e) there is an emphasis on drawing out the strategic and practical implications for donors.⁷

Several years later, in a search for greater rigour in how to examine decision-making, DFID commissioned Adrian Leftwich to produce a 2007 paper, the 'Politics of Development'.⁸

In 2008, the Netherlands government defined a framework, the Strategic Governance and Corruption Assessment (SGACA).⁹ This builds on the Drivers of Change approach, with which it shares common elements, though (a) it is more structured, and (b) it builds in an explicit consultation process. At the heart of SGACA is a Power and Change analysis, based on analysis of foundational factors, the 'rules of the game', and the 'here and now', the latter covering actors and short-term events. The consultations are both external with a range of interested parties in government, civil society and the private sector, and internal within the Dutch embassy, with a particular focus on drawing out the operational implications of the analysis.¹⁰

How and where has PEA been used?

PEA embodies a valid and compelling set of explanations of development, but does it go beyond interesting contextual analysis? There are potentially three dimensions in which it can be useful to development agencies:

- **Thinking:** being clear about the possible level of influence of development agencies, time-scales of change, setting realistic expectations, recognising the value of local institutions and approaches
- **Strategy:** looking creatively for ways to promote change that shifts political incentives in a pro-developmental direction, identifying what is there already rather than trying to create new institutions; linking aid strategies to other instruments.
- **Operations:** informing the content and priorities of aid programmes and ways of delivering them and handling risk, including managing relationships, and maximising influence.

Country, sectoral and problem-focussed. As the PE approach gained traction within development agencies, much of the early work focussed on country studies. These were intended to raise general awareness of how politics works and impacts on development outcomes in a given country. More practically they were meant to inform country-level strategies and programming by individual development agencies. DFID has undertaken about 25 country-level political economy studies, and the Netherlands about 35, covering all of the principal recipients of Dutch aid. To varying degrees, these studies have also sought to identify how global and regional factors influence the domestic political economy.

In the past three to four years there has been a discernable trend towards the use of PEA in more in-depth sectoral and thematic studies, or problem focussed analysis. There are an increasing number of **sectoral studies**, covering for example roads in Uganda, agriculture in Zambia and Kenya, the power sector in Zambia, police reform in Bangladesh and so on. There are also examples of **thematic studies** that cover major policy or institutional issues at the heart of development agendas, for example the politics of economic growth.¹¹ **Problem-focused analysis** is not entirely distinct from sectoral and thematic work (the problems being addressed may be sectoral, sub-sectoral or thematic), but seeks further to strengthen the operational relevance of PEA. It has been the subject of a recent World Bank paper, and is covered by another presentation at this workshop.

This early burst of political economy analysis generated mixed reactions. While there was general agreement that country studies had led to improved understanding of local political processes, there was a widespread sense of disappointment that many studies failed to generate clear and convincing operational recommendations. This criticism is now less commonly heard: there is a wider recognition now that this analysis does have practical value.

Case-studies of Nigeria and Bangladesh

The purpose of this section is to set out experiences and lessons of applying PEA to two major countries, Nigeria and Bangladesh, where The Policy Practice has recently been active, and which demonstrate the usefulness of PEA, its operational relevance, and its limits. These countries are important test cases because they both experience serious governance problems, including massive corruption, weak accountability, conflict and criminality. They were also amongst the earliest countries in which DFID developed and applied PEA, branded as Drivers as Change, beginning in 2002 and 2003. Thus if PEA has had any impact, this ought to be discernable in these two countries. What has the experience of these two countries taught us?

Nigeria and Bangladesh: some characteristics

Nigeria and Bangladesh are fundamentally different, but share certain similarities. They are large, with populations in each case of around 140 – 160 million; very large numbers of their citizens live in poverty (Bangladesh 40% or 55 million (2005); Nigeria 54% or 76 million); they are strategically important at a regional level, Nigeria being politically and economically influential in west Africa and Africa more widely, and Bangladesh in its links with India, China and Myanmar. They matter to the US and UK for a number of reasons: (a) the diaspora --- an estimated 400,000 Bengalis and perhaps more Nigerians live in Britain); (b) Islam, where Nigeria in particular is showing signs of a growth of political Islam; and (c) energy security, in the case of Nigeria which is the world's eighth largest oil exporter.

Both countries have long histories of military engagement in politics, in the form both of direct rule and of behind-the-scenes influence, but now both have civilian governments, brought to power through generally flawed elections (though with the outstanding exception of the 2008 election in Bangladesh which is widely regarded as the cleanest ever in the country).¹² Both are defined at least by the UK as fragile states. Finally, Bangladesh and Nigeria have long been close to the bottom of Transparency International's Corruption Perceptions Index. Aid is in financial terms small as a percentage of the GDP of both countries (of the order of 1-2%).

The differences are also marked. Poverty trends in Bangladesh are downwards, and the country is on track to meet almost all MDGs; Nigeria is likely to miss all of the MDGs, and more Nigerians live in poverty than a decade ago, though the proportion in poverty is falling. Nigeria, a country established only in 1914 by fiat of its colonial rulers, is outstandingly heterogeneous in ethnic and religious terms. It has a Federal constitution with 36 states, established in good measure as a means to avoid a recurrence of the disastrous Biafran war of 40 years ago, and of managing increasing violent conflict. Bangladesh is relatively homogeneous in ethnic and religious terms (with non-Bengali minorities, mainly in the south-eastern hill tracts, and with a non-Muslim minority of less than 10%); and it has a highly centralised form of government. Nigeria's economy is oil-based, the sector providing over 90% of exports and the great majority of government revenues. Bangladesh has modest natural resources, but has succeeded in developing a ready-made garments sector which provides 75% of exports. Nigeria is characterized by endemic and worsening violence, and is increasingly regarded as a fragile state; in Bangladesh, while there is extensive violence and intimidation in politics, violent conflict is seen as less system-threatening, although the run-up to the cancelled 2007 election gave rise to concern on this front.

What analysis has been done in the two countries?

Nigeria. DFID undertook in 2003 to 2005 a large-scale and costly series of around 60 PE studies, of highly variable quality, but together creating a basis for understanding political dynamics and its implications for development outcomes. Since then PEA has been generally adopted within the DFID Nigeria office, and amongst the teams implementing DFID's programmes. It has become a routine part of their way of working.

Bangladesh. There is a solid body of PEA of Bangladesh, including by local civil society and research bodies, notably the annual 'State of Governance' report which has been produced since 2006 by the Institute of Governance Studies of the BRAC University. Donor-led governance analysis with a strong PE dimension goes back to 2002 with the publication of two pieces of work: the World Bank's 'Taming Leviathan', and DFID's 'Supporting the drivers of pro-poor change'. More recent documents include the Netherlands government's SGACA study, USAID's Democratic Governance Assessment, and DFID's 2008 Country Governance Assessment. A country governance analysis jointly commissioned on behalf of most of the development agencies is currently under way. More recently, PE analysis has been applied at a sectoral or subsectoral level, for instance in the area of police reform, to try to strengthen the prospects that interventions will be successful.

What has been learned in the two countries?

Nigeria. Nigeria's diversity means that there are real differences between geographies and States, but some generalisations can be made. The following features of Nigeria's political economy combine to make good governance and security more difficult to achieve.¹³

- Large oil revenues offer potential for stimulating economic growth, but in practice have created distortions - whether political (crucially inducing elites to struggle for control of the resource), economic (via Dutch disease effects) and social (contributing to regional and ethnic tensions) - that have undermined growth and prospects for diversification in the non-oil sectors. The existence of oil revenues reduces the extent to which elites need the aid donors and the resources they can bring, and hence the latter's leverage.
- The structure of the economy is not conducive to creating powerful pressure groups that favour progressive reform. The economy consists of a large smallholder farming sector not closely linked to the market, dispersed spatially, and not organised; an enclave oil sector; a partially protected industrial sector; non-traded and often inefficient service-providers; and government employees.
- The weakness of relations between state and society leads to shallow institutions of governance and a lack of sustained citizen pressure for accountable government. Accountability is weak, especially at the State

level where Governors have considerable power, and restraints on the executive are weak. If a political settlement can be said to exist in Nigeria, it is fragile and excludes many if not most citizens, the majority of whom do not feel that the state serves their interests.

- While there are many passionate voices calling for a higher quality of electoral democracy, competition for political power depends mainly on managing patronage relationships. Political elites are not rewarded or punished according to their success in bringing about economic growth or quality public services, but rather according to their ability to enrich their supporters and to counter competing claims. Parties are not guided by ideas and programmes, but are electoral machines driven by personalities and patronage.
- The policy process is personalised rather than vested in formal institutions, and is typically driven by informal interest group lobbying rather than robust and formalised consultation.
- The ever-present risk and actuality of violent conflict – associated with resource control, electoral and political violence - strengthens the hand of interest groups which threaten national stability, and resulting political compromises have tended to undermine further the accountability and functioning of the state.
- Value systems have developed that promote opportunism and short-term behaviour.

The political economy of different States offer varying scope for reform. In some northern States, there are stronger traditional institutions, some faith-based, that have carried through into modern politics, creating forms of social accountability. Lagos State stands apart a dynamic centre of growth with stronger pressures for accountability arising from a vocal business sector, increasing citizen expectations of government and a state government that earns a high proportion of its revenues from state taxes (rather than central transfers). In other States, however, there are few restraints on abuse of office, both in terms of the Constitution, which gives extensive power to Governors, and in informal practice.

Broadly, the political economy results in a systematic failure of the state to provide the public goods on which growth and poverty reduction depend --- quality public services, public infrastructure, a conducive environment for investment and growth, and personal security. Flawed politics, weak economic performance, and national and personal insecurity are closely interlinked.

Bangladesh. Surveying the various PE studies of Bangladesh, there is a common core to the findings, which may be interpreted as:¹⁴

- Bangladesh enjoys a number of factors which could create the conditions under which good governance and democracy can flourish. Identity politics, whether derived from ethnicity or religion, are not

central; the demand for democratic politics and political participation among the population is strong, despite high levels of poverty and illiteracy. There are many politically active and engaged people in Bangladesh, creating a strong demand for democracy. There is a national Bangladeshi identity and a tradition of citizen activism that, *inter alia*, has contributed to the exceptional scale and reach of civil society organisations.

- Yet, this tradition of activism sits oddly with the fact that the great majority of citizens, whether as individuals or groups, powerful or weak, find it hard, if not impossible, to escape an all-encompassing system of patronage that is bound up with the struggle for political power. The instruments of patronage include public spending and public employment, widespread corruption in public procurement, and violence and intimidation.
- At least for the past nineteen years since the restoration of democracy, the two main political parties, in coalition with junior partners, have competed for power via the electoral process. Dynastic and personal elements exacerbate the tension. What distinguishes party competition in Bangladesh from that in many other countries is the fact that almost all institutions of society and the economy are divided on party lines, from professional groupings, through student organisations to trades unions, divisions that are exacerbated by the first-past-the-post electoral system. The electoral victory of one party or the other thus causes a realignment of power in society, from top to bottom.
- Elections are very intense, confrontational, and often accompanied by high levels of violence, but every election since the return to democracy in 1991 has seen the incumbents removed from office. Elections have not led to improved governance, for several reasons: the incentives bearing on political leadership lead to extreme short-termism, as winners use the newly-acquired levers of power to secure immediate benefits for supporters and to punish opponents; and second, and perhaps most important in explaining the paradox, is the fact that many voters themselves are trapped within patronage relationships which mean that they expect to gain a payoff, should their patrons secure power.
- There are a few exceptions, partial or complete, to the alignment of institutions with parties. Among the most significant is the **army** which for 20 years to a considerable extent has stood aside from the parties. Its major recent intervention in backing the two-year Caretaker Government of 2007-08 was used to reduce the partisan nature of key accountability institutions, and to create the conditions for a fair electoral contest. At the same time, some, but not all, **NGOs**, similarly avoid party alignment, partly because of the objectives and internal culture of those who their founders and leaders, and partly because the access of some of them to donor funding. And **donors** themselves are neither partisan nor bound into domestic patronage relationships, and are able to help create some non-partisan room for manoeuvre for domestic partner organisations.

These patterns of politics, even if established in their present form over only nineteen years, have deep roots. While the intervention of the military and the installation of the Caretaker Government (CTG) disrupted these patterns, as the CTG and its military backers found, it is difficult if not impossible to remove or marginalise the main parties and their flawed leaders.

Some headline similarities and differences

The importance of patronage politics is highlighted in both countries.

The instruments of patronage are similar in broad terms in both countries and include public spending and public employment, widespread corruption in public procurement, violence and intimidation. The specific ways in which patronage works in the two countries are, however, very different. In Nigeria patronage has been fuelled by ready access to oil revenues, and political contestation is centred on access and control of these rents. In Bangladesh, virtually all institutions in society are divided along party lines, and are highly politicised; and in the winner-takes-all system of electoral democracy the party winning the fiercely-contested elections is able to use its power to reward its supporters and punish its opponents.

A weak social contract. In both countries, the social contract is partial, weak or even absent. In Bangladesh, there is a relatively strong sense of national identity (created in a long history and forged in the struggle against the British and against Pakistan), and some observers suggest that since independence there has been an elite consensus around the need for economic growth and government actions to reduce poverty; this is most clearly seen in primary education (low-quality though it is) and in disaster relief. Beyond those significant areas, however, the social contract is largely absent. In Nigeria, identification with the state is weak, and loyalties are generally based on ethnic and religious identities. There is little sense of a widely shared social contract in Nigeria.

In both countries, taxation does not create accountability between citizen and state. Bangladesh has one of the lowest tax-take figures in the world as a proportion of GDP (currently around 11%); and in Nigeria, oil provides the overwhelming majority of government revenues.

Understanding narrowly-defined and often self-serving elites is critical.

In both countries, relatively small elites, variously estimated at a few hundred thousand people are at the heart of patronage systems. In Nigeria, elite power is based on control and distribution of oil revenues, elites being defined in part by ethnic and religious identity politics. With the exception perhaps of Lagos State, these elites (sometimes cohesive, sometimes competitive) are not dependent on the citizenry either as tax-payers or as productive, healthy and educated workers; and to the extent that elections can be manipulated and still result in a government that has the ability to function, they do not rely on them as voters. In Bangladesh, identity politics is not a significant issue in defining elites; instead they are based on a success in securing political power, often using it to entrench social position and gain economic

advantage. Increasingly, economic diversification is making the elites more heterogeneous. In both countries, elites have exit options, whether through expatriating themselves, their families and their capital, or through using private services, all of which reduce the pressure on them to address problems within the country.

Disappointing experiences with democracy. Both countries have gone through several alternations of democratic government and military rule. Periods of democratic government have not delivered stronger public accountability. Instead the democratic machinery – political parties in particular – has been used as a patronage mechanism and has become a locus of violence. Yet, despite this, in both countries opinion surveys and other evidence suggest that the majority of citizens value democracy highly.

Informal institutions trump the formal rules of the game. In both countries, there are many features of well-articulated formal laws and institutions. However, of greater significance than formal arrangements are the informal realities of how these work in practice. This observation applies widely: for instance, the existence of apparently merit-based personnel systems in the civil service is no bar to it being used in reality as an instrument of patronage.

Violence as an instrument. In both countries, the separation between criminality and politics is not always clear. Violence is an instrument of politics and the struggle for resources, though it takes very different forms in the two countries. In Bangladesh, the parties routinely use mastaans (thugs) to enforce their will. In Nigeria, most conflicts centre on regional or localised contestation for natural resources (whether in the Niger Delta for oil and revenues, or in the centre and north of the country around land), but political violence is also prevalent.

What use has been made of PEA in the two countries?

At the start of this paper, we suggested that there are three levels at which the impact of PEA might be felt: thinking, strategy and operations. Overall, it is possible to discern effects at each level, but uptake is not complete, and there are several areas where greater progress is needed.

Thinking. In both countries DFID is well on the way to adopting PEA as a routine tool, and its use is evident in numerous analytical and programming documents, including DFID's Country Governance Assessments. The use of PEA appears to have extended beyond DFID, to its programme contractors and other development agencies.

In both countries the adoption of PEA has led to DFID and other agencies reflecting more deeply on how they can best achieve influence in a context of low aid dependence where donors' financial leverage is limited. There is now broader thinking about the range of potential opportunities to support progressive change, and more creative engagement with a wider range of

organisations across and outside of government. Political Economy Analysis has thus brought a greater sense of realism about the difficulty of bringing about transformative change, but at the same time appears to have focussed minds on identifying the most promising entry points.

Strategy. In both countries, the main strategic implication of PEA has been to focus attention on strengthening accountability mechanisms, and in relative terms downplaying (though certainly not abandoning) public sector capacity-building programmes. In Nigeria there is an increasing presumption that programmes to support state capacity for policy development and service provision, both at Federal and at State level, should be paralleled by initiatives to strengthen voice and accountability. This shift is also evident in Bangladesh, although donor activity is still largely focussed on supply side approaches to promoting governance reform.

The use of PEA has also led to a broadening of the types of intervention funded by DFID. In Nigeria this is reflected in DFID's increasing engagement at state level, and the greater inclusion of new actors including in the justice sector, national and state assemblies and in civil society. DFID has adopted an *issue-based approach* to designing development interventions, centred on identifying issues around which groups with shared interests in promoting change can coalesce. In both countries non state organisations receive significant support from DFID, and there is a trend towards increasing funding for their advocacy work in addition to service delivery.

In both countries, there has been a trend in recent years to link instruments of development to diplomacy and other aspects of international relations. In Bangladesh, for instance, the international support for the 2008 election involved extremely close integration of development and diplomacy, by the UK, US and others. Similarly in Nigeria, the run-up to the 2011 election involves such collaboration, as does the increasing focus on working on violent conflict, hitherto an area in which the UK aid programme has had limited involvement. UK involvement in Nigeria has also extended to cooperation between judicial and law enforcement bodies in cases of corruption and fraud, as well as the promotion of greater transparency in the management of natural resource revenues (mainly through the EITI process).

Operations. There has been a particularly dramatic shift in DFID's strategy and programming in Nigeria where a raft of new programmes have been initiated since the 2003-05 Drivers of Change studies. This includes a focus on core economic management functions and governance at the Federal level, a new round of state level programmes and a scaling up of initiatives aiming to promote voice and accountability. The latter include the *Coalitions for Change Programme*, the *State Accountability and Voice Programme* and *Enhancing Nigerian Advocacy for a Better Business Environment*. The use of PEA is evident in the preparatory documentation for these programmes, the selection of particular activities and in monitoring and evaluation frameworks. In Bangladesh, there is an increasing (but arguably still insufficient) focus on demand side programmes, notable initiatives including the multi-donor Paribartan: Driving Change programme (implemented by TI Bangladesh), the

DFID-funded Manusher Jonno challenge fund designed to support demand for improved governance and rights among poor people; and four USAID-funded programmes building CSOs and advocacy associations (PROGATI, Political Party Reform in Bangladesh, the Leaders of Influence Programme, and the new PRODIP --- Promoting Democratic Institutions and Practices).

One implication of the analysis is that development agencies should work more closely together, both in undertaking analysis to develop a shared understanding of the constraints on development, and in designing and implementing their interventions. In the two countries reviewed, development agencies are showing signs of working more closely together. In Bangladesh donor funding for governance work is increasingly pooled into larger multi donor programmes focused on a particular sub-sector or theme, such as the \$95 million Strengthening Public Expenditure Management Programme (SPEMP).

Developing a shared understanding among the donors is important as a basis for this. In Bangladesh, the first joint governance analysis, which includes a strong political economy dimension, is currently under way, jointly commissioned by the major donors. In working jointly, there may be a trade-off between the depth and frankness of the analysis on the one hand and, on the other, its acceptability to a range of different agencies.

The record of cooperation among the agencies ('alignment and harmonisation' in Paris Declaration terms) is mixed, in good part because of the incentives they face. There is some progress: joint country strategies are becoming the norm in both Bangladesh (where a new Joint Cooperation Strategy involving government and virtually all of the development agencies has just been signed) and Nigeria (where the second joint strategy, involving DFID, the World Bank, USAID and the African Development Bank, covers around 80% of aid inflows). While this joint working is desirable, there are also risks - visible in both Bangladesh and Nigeria - that the resulting country strategy will tend towards a lowest-common-denominator with which all parties can agree.

Is there evidence of impact on development effectiveness?

There are good reasons to expect that these changes brought by the use of PEA will increase aid effectiveness. However, the evidence to support such a claim has not yet been gathered. We are not aware of any wider review of the impact of PEA on development effectiveness and aid effectiveness --- the ultimate justification for undertaking the work. The last review of DFID's Drivers of Change work was in 2005, an early stage at which the focus was on the extent of uptake and the impact on programme design.¹⁵ There has been not yet been a review of the Netherlands' SGACA'.¹⁶

While there is reason to believe that the quality of strategy and programme design has been strengthened, there has been no systematic observation of the evidence to assess whether it has yet had the desired impact on the

effectiveness of the development agencies' work. There seems a good case for undertaking such a review.

Remaining challenges in the adoption of political analysis

Nigeria and Bangladesh provide two relatively positive examples of the uptake of PEA. In many other aid recipient countries the use and application of political economy analysis has been more limited. In general terms donor agencies are still guided by a technocratic view of development and a normative view of governance challenges. In promoting a more general adoption of political economy approaches there are two main challenges to be addressed:

- On the supply side, getting the product right and getting the message across; and
- On the demand side, taking account of the political economy of donor agencies

Getting the product right and better communicating the message

It is important to be clear that: (a) the aim of undertaking PEA is to raise development and aid effectiveness, and (b) that it goes beyond interesting contextual analysis for its own sake. Political economy analysis is beginning to prove its operational usefulness, but more needs to be done to develop the tools and processes of analysis to fit with the needs of development agencies.

In terms of **developing the tools**, there is clearly much scope to develop, test and apply sectoral and problem-focussed PEA. While the analysis needs to continue to cover big-picture issues, more problem-focussed analysis is needed, directed towards the difficult issues that exercise development practitioners in their daily work.

It is important to adopt a positive approach to applying the analysis, through recognising that it aims at better strategy and programme design. In some cases political economy analysis has become a 'dismal science of constraints' that has served only to highlight the difficulty of undertaking reform, without being able to identify positive opportunities for change. The focus of analysis needs to be much more on identifying the 'room for manoeuvre,' that is available within broader political constraints, and to seek particular configurations of interests, actors and incentives that maximise the possibility of collective action and change.

In terms of **improving the process** there is scope to look at how PEA is initiated, commissioned, reviewed, shared and discussed, in order to more firmly link the analysis to operational problems. The SGACA exercise has demonstrated the worth of using of consultative workshops, both with wide participation and especially with staff of the development agencies, to draw out the operational implications.

Practitioners of political economy analysis can also do a much better job of 'selling' the approach, through showing how political analysis can be useful, by providing examples of where good analysis has helped to improve strategy, as in Nigeria and Bangladesh, and by avoiding complex terminology and academic language.

The political economy of development agencies

Development agencies are subject to incentives that sometimes make it difficult to follow through the implications of political economy analysis. While political economy analysis often highlights the fact that working in 'good-enough' or 'second-best' ways may be the best way forward, it may be hard to explain this to home governments and publics, in particular because development agencies need to tell a straightforward and positive story in order to retain domestic support. Additionally donor agencies are subject to pressure to disburse funds, have short time horizons; are exposed to domestic lobbies; and respond to complex motivations which may cut across security, diplomatic, commercial and developmental concerns. Finally, some of the implications of PEA can be awkward in terms of the agencies' current ways of working: the costs and risks for staff of working in this way can be unappealing – especially if this is not formally specified in their individual performance assessment systems.

There are also some factors relating to organisational culture, values and beliefs: there is often rightly a pressure to get things done, but this can be at the expense of quality; a tendency towards optimism rather than realism; a preference for experts bringing solutions; an inflated view of donors' importance; a preference for working with formal institutions and a lack of understanding of the informal; and a set of mental models about how development happens that can be hard to shift. In practical terms, overly-rapid staff turnover is a real obstacle to staff being able to develop the necessary depth of understanding. Institutional memory is often weak.

Finally, development agencies are highly sensitive to the need to avoid a heavy handed and interventionist approach. The use of more overt political language when used crudely risks resulting in damaging criticism of interfering in another country's affairs.

How can we encourage greater uptake?

The paper ends with a few practical suggestions for increasing uptake of PEA:

- Investing time and effort in explaining to legislatures and publics why political economy analysis is important

- Senior managers being ready to face and communicate inconvenient truths
- Putting greater value on in-depth country knowledge
- Refining the tools of political economy analysis, and communicating them better
- Improving the process of undertaking PEA, in particular by being clearer on the purpose being sought, managing expectations, and linking consultations to the discussion of operational questions.
- Collecting positive stories of change where political economy analysis has led to more effective development assistance. This will require a more serious review of the impact of political economy analysis to date
- Engaging in new issues – for instance, global drivers of governance in developing countries
- Seeking potential allies at the political end of government. For example, diplomats may be more comfortable with the ideas of PEA than more technically inclined development specialists
- Changing donor ways of working, to move away from the notion that they are experts bringing solutions, but are rather facilitators of change
- Developing skills in and sensitivity to political economy analysis across the staff of development agencies
- Applying political economy analysis to the incentive problems existing within development agencies themselves.

¹ Both work with the Policy Practice. The paper is the authors' responsibility, and not that of any of the organisations mentioned. Comments, please to alex.duncan@thepolicypractice.com and gareth.williams@thepolicypractice.com

² 'Political economy How-To-Note,' A DFID Practice Paper, January 2009, p.4.

³ USAID technical publications series PN-ACP-338, November 2000.

⁴ 'Understanding pro-poor change: a discussion paper,' Sue Unsworth, September 2001.

⁵ 'Bangladesh: supporting the drivers of pro-poor change,' A Duncan et al, 2002.

⁶ 'Drivers of Pro-Poor change in Nigeria,' Oxford Policy Management, May 2003

⁷ See 'Political Economy How-to-note', a DFID Practice Paper, July 2009

⁸ 'From Drivers of Change to the Politics of Development: refining the analytical framework to understand the politics of the places where we work,' Adrian Leftwich, February 2007.

⁹ 'Framework for strategic governance and corruption analysis (SGACA): designing strategic responses towards good governance,' Prepared by the Clingendael Institute for the Netherlands Ministry of Foreign Affairs. Conflict Research Unit, author Sue Unsworth, 2008.

¹⁰ SIDA has also developed a political economy framework, 'Power Analysis'. It is similar to Drivers of change and SGACA, but a central focus on analysing the nature of power relations. Key questions are where does real power lie, how it is distributed, who is excluded, and what are the incentives for pro-poor reforms.

¹¹ "Politics and growth," Gareth Williams, Alex Duncan, Pierre Landell-Mills and Sue Unsworth. The Policy Practice, September 2007. See:

<http://www.thepolicypractice.com/papersdetails.asp?code=14>. See also Development Policy Review 27:1, pp 5-31, January 2009.

¹² This election took place in abnormal circumstances, after two years of a technocratic Caretaker Government, backed by the military.

¹³ This text draws on 'DFID Governance Portfolio Review, Nigeria,' A. Duncan, the Policy Practice, April 2010; and 'The political economy of reform: the case of Nigeria,' Policy Practice Brief Number 3, Pat Utomi, Alex Duncan and Gareth Williams, 2007.

¹⁴ This subsection draws on: 'Good election, bad politics: a case study of elections and the role of the international community in Bangladesh,' Alex Duncan, Susan Loughhead and

Jeremy Eckstein, paper prepared for DFID, May 2009, p.12. It is also informed by ongoing work under the joint Country Governance analysis.

¹⁵ 'Review of the Uptake of the Drivers of Change Approach', Review for DFID, Thornton, N. and Cox. Agulhas, 2005.

¹⁶ A gap noted in a recent paper 'The SGACA experience: incentives, interests and raw power', Joop Hazenberg.

<http://e-mdf.nl/projects/dprn/backgrounddocuments/The%20SGACA%20experience%20Goed%20Bestuur.pdf>