

Using Political Economy Analysis to improve EU Development Effectiveness

A DEVCO Concept Paper

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Section 1: Introduction

1.1 Purpose of the paper

European Commission staff, especially staff based in Delegations, are well aware that politics play a crucial role in shaping development outcomes. They increasingly recognise that the failure to take adequate account of this has led to mistakes and waste in development cooperation. Political economy analysis can help give them a clearer understanding of the political and economic processes at work in a given country or sector context, and how they influence institutional capacity and policy choices. This can help make development cooperation more effective.

This concept paper has been prepared as part of a broader DEVCO exercise to bring together existing guidance on development practice into one harmonised document, the *Project and Programme Cycle Management (PPCM) Guidance*. The concept paper explains what is meant by political economy analysis, why it matters fundamentally for understanding development challenges and outcomes, and the implications for donors. It also offers practical guidance on how to undertake political economy analysis at country and sector level, and suggests how to draw on the analysis to inform every aspect of EU development activity, including programming, identification and formulation of specific interventions, risk management and policy dialogue.

1.2 Overview of the sections

Section 2 explains the **key concepts underpinning political economy analysis**. This theoretical perspective matters because the most important contribution that political economy analysis can make to increasing aid effectiveness is to help donors think more clearly about how development happens, and about the local processes with which they are engaging when they give development assistance.

Section 3 explains **why political economy analysis is needed** and how it poses new challenges and opportunities for development practice.

Section 4 looks at **how to draw on analysis in making operational choices** at country and sector level, based on the practical experience of EU Delegations and other donors; and how it can help inform risk assessment and policy dialogue.

Section 5 explains **the range of political economy analysis tools available**, and introduces two approaches that can be used to undertake analysis at country and sector level. Detailed guidance is given in the annexes.

Section 6 covers **practical aspects of undertaking political economy analysis** including timing, resource requirements, sources and research methods and advice on managing the process. It also suggests next steps needed to build ownership for political economy analysis within the Commission.