

# Analysing and managing the political dynamics of sector reforms: a sourcebook on sector-level political economy approaches

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David Edelmann

**Working Paper 309**

Results of ODI research presented  
in preliminary form for discussion  
and critical comment

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sector reforms: A sourcebook on sector-level political  
economy approaches**

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## Acronyms

OECD	Organisation for Economic Co-operation and Development
DFID	UK's Department for International Development
Sida	Swedish International Development Cooperation Agency
PRSPs	Poverty Reduction Strategy Papers
PSIA	Poverty and Social Impact Analysis
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
ODI	Overseas Development Institute
DoC	drivers of change
CAR	capability, accountability, responsiveness framework
CSOs	civil society organisations
NGOs	non-governmental organisations
PMP	policy-making process

## Executive summary

Sector-level political economy approaches aim to better understand and more effectively influence the political, economic and social structures, institutions, processes and actors determining the political dynamics of sector reforms. Four types of dynamics determine the political dynamics of sector reforms: sector-internal dynamics, cross-sectoral dynamics, the dynamics of the political process and country-wide dynamics.

While country-level political economy approaches are now well established, sector-level approaches are still considered unknown territory. This is now beginning to change. There is growing interest among development partners and research institutes in deepening the understanding of what drives or blocks sector policy change. This is due to the increasing recognition of the key role of politics – both in development and development cooperation as well as in sector reforms and sector development.

This sourcebook provides an up-to-date overview of a selection of the most insightful approaches, frameworks and studies designed to analyse and manage political dynamics of sector reforms in the context of development cooperation. This sourcebook aims to bring development practitioners and researchers ‘on the same page’ and facilitate the development and refinement of approaches in a joint and ongoing learning process.

Four types of dynamics impact on reforms at the sector-level: sector-specific dynamics, cross-sectoral dynamics, the dynamics of the political process and country-wide dynamics. There are a wide range of different approaches out there that can directly or indirectly be used for sector-level political economy analysis and management. In this sourcebook, we divide approaches into two groups:

- Sector-level political economy approaches;
- Country-level and politics-centred political economy approaches with interesting lessons learned for sector-level approaches.

Each of the approaches introduced in this sourcebook is described according to conceptual approach; methodology; comments and key references.

Based on this analysis, the sourcebook found that sector-level political economy approaches can be characterised by a series of strengths, weaknesses and gaps. Strengths tended to be their focus on core development challenges, methodological diversity and dynamic evolution. Weaknesses, on the other hand, tended to be around having a very small number of empirical, comparable and publicly accessible sector studies; too few policy management-oriented action frameworks and an insufficient theoretical guidance on using some approaches, frameworks and matrices. Gaps were identified in the assessment of political viability of sector reforms; in the analysis of domestic decision making and subsequent implementation; and in the consideration of concrete operational implications.

A selection of country-level and politics-centred approaches presented in the sourcebook could help fill these gaps. They could deepen understanding of political dynamics of sector reform contexts, contribute to increased demand for political economy approaches and provide insights that could prove interesting for sector-level policy analysis and management.

In addition, sector-level approaches could reduce gaps and weaknesses by taking into account the selection of particularly interesting theoretical approaches presented in the penultimate chapter. These approaches from political science, economics and sociology could further sharpen policy analysis and management.

Finally, based on the review of the sector-level approaches presented in this sourcebook, the sourcebook draws detailed recommendations for existing and new sector-level political economy approaches.

# 1 Introduction

## 1.1 Objectives: A demand-driven resource

Over the last five years or so, an increasing number of development partners and research institutes have developed a wide range of approaches, frameworks and tools for political economy analysis. In order to provide an overview of the existing approaches and to learn from the experiences made with these approaches, development partners and research institutes have started to publish reviews, sourcebooks and toolkits on political economy analysis (see OECD 2005; World Bank 2006; Nash, Hudson & Luttrell 2006; World Bank 2007; OECD 2008a; OECD 2008b; OECD 2009a). The existing resources tend to look at country-level approaches; be aimed at specific target groups; or to focus on specific analytical frameworks.<sup>1</sup>

So far, however, there is no resource that provides development partners and research institutes with an overview of existing *sector-level* political economy approaches, frameworks and tools for analysing and managing the political dynamics of sector reforms. This sourcebook aims to fill in that gap by providing a snapshot of present state of sector-level political economy approaches, with the hopes of facilitating learning around political economy. The sourcebook covers a wide variety of existing conceptual approaches, analytical frameworks and empirical studies that have been developed to better understand and more strategically influence the political dynamics of policy change at the sector-level.

The main objective is to inform development practitioners and researchers by illustrating a wide range of existing sector-level political economy approaches and lessons learned from country-level political economy approaches for sector-level approaches. Better knowledge of the existing approaches should encourage development partners and research institutes to engage in joint ventures and/or invest in specialised individual approaches that take into account the other existing approaches. This may help to reduce duplication and realise synergies.

Due to the rapidly growing number of new approaches and the evolution of the existing ones, this sourcebook can neither provide a full nor a final compilation of approaches. Rather, it is a first step in a collective and ongoing learning process.<sup>2</sup>

## 1.2 Scope

This sourcebook introduces 15 sources that represent either a specific conceptual approach, an analytical framework or an empirical study that provides a fruitful contribution to improving sector-level political economy approaches. In addition, this sourcebook covers a wide range of approaches to reflect different disciplinary, organisational and national perspectives on sector-level political economy approaches. There are approaches focussing on specific challenges in specific sub-sectors and others that look at the general dynamics at the country-level or in the policy making process.

Combining approaches at different scales is necessary, as political dynamics featured in a specific sector cannot be fully explained from within the respective sector alone. Political dynamics at the sector-level are strongly influenced by a combination sector-specific dynamics, cross-sectoral dynamics, dynamics of the political decision making process and country-wide dynamics.

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<sup>1</sup> The 2005 OECD report compares and contrasts different donor approaches to country-level political economy analysis – with a focus on Power and Drivers of Change analysis – to learn lessons for future work (see OECD/DAC 2005). The 2006 World Bank report reviews approaches to macro-level social and political analysis developed by the World Bank and other donors (see World Bank 2006). The 2006 ODI toolkit describes a range of tools that Civil Society Organisations might use to better understand and map political context (see Nash, Hudson and Luttrell 2006). The 2007 World Bank sourcebook introduces a framework as well as tools for institutional, political and social analysis (TIPS) for Poverty and Social Impact Analysis (see World Bank 2007). The OECD sourcebook introduces a selection of general country-level governance assessments and thematic governance assessments in the field of security, conflict and anti-corruption, including some political economy approaches (see OECD/DAC 2008a; OECD/DAC 2009).

<sup>2</sup> With regard to country-level approaches, this learning process has already started. For example, van Breukelen (2007) assessed DFID's 'Drivers of Change' approach on behalf of the Dutch Ministry of Foreign Affairs to find out how they could use this approach and/or how they could take it forward.

Hence this sourcebook covers two types of political economy approaches:

- Sector-level political economy approaches;
- Country-level and politics-centred political economy approaches.

In addition, the sourcebook showcases a handful of theoretical approaches from political science, economics and sociology that could help to sharpen existing and new sector-level political economy approaches.

### 1.3 Organisation of the sourcebook

The sourcebook is organised into six parts. Chapter 2 briefly introduces the present state of sector-level political economy approaches. Chapter 3 presents summaries of a selection of existing sector-level political economy approaches. Chapter 4 presents summaries of a selection of particularly interesting country-level and politics-centred political economy approaches. Chapter 5 showcases a handful of theoretical approaches from political science, economics and sociology that could help to further sharpen existing and new sector-level political economy approaches. Chapter 6 draws recommendations for the refinement of existing approaches and the development of new approaches.

In order to allow for direct comparison between different approaches, each approach is presented according to the following guiding questions:

- **Conceptual approach:** Why is this approach interesting for sector-level policy analysis?
- **Methodology:** What are the building blocks, steps and operational implications of the analysis?
- **Comments:** What are the strengths and weaknesses for sector-level policy analysis and management?
- **Key references**

These summaries present the key analytical building blocks, the sequence of the analytical steps and the operational implications of the approaches. In addition, they present a selection of particularly interesting and useful classifications and guiding questions presented in boxes, tables or matrices. The summaries are complemented by personal comments on the strengths and weaknesses of each of the approaches.

## 2 The present state of sector-level political economy approaches

### 2.1 What do we mean by sector-level political economy approaches?

Why do sector reforms sometimes slow down, stop or reverse despite technically sound policy content? What are the political, economic and social forces that drive or block policy change in specific sectors? Why do real world politicians often not act like textbook social planners? Which opportunities and incentives as well as which constraints and disincentives are reformers facing? Why is the ‘political will’ for sector reforms sometimes strong and sometimes weak? And how could development partners best create, strengthen or sustain this political will for sector reforms?

These are some of the questions many development practitioners ask when they seek to better understand and support sector reforms in developing countries. In order to find answers to these key questions, an increasing number of development partners have developed so-called ‘political economy’ approaches over the last 5 years or so.<sup>3</sup> At present, development partners and research institutes are particularly active in developing and refining political economy approaches specifically designed to analyse and manage reforms at the sector-level.<sup>4</sup>

But what exactly is the difference between the traditional political or economic approaches and these new political economy approaches with regard to the analysis and management of sector reforms? According to the OECD (2009b), political economy approaches are ‘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.’<sup>5</sup>

Following the OECD definition, political economy studies ‘recognize that the policy environment is shaped by political, economic, social, cultural and institutional factors’ – i.e. they analyse all factors influencing the political process (OECD 2005:4). Moreover, they seek ‘to move beyond a description of symptoms and to understand the underlying causes of poor governance and lack of “political will” for sustained change’ (OECD 2005:4) and thus, focus on the underlying institutions and incentives that are governing political action.

According to Collinson (2003:18), political economy analysis is characterised by four guiding principles: ‘dynamic (by focusing on change), broad (by connecting changes in one place or group to those in another), longitudinal (by incorporating a historical perspective), and explanatory (by asking why certain people are affected by conflict and crisis in the way that they are)’.<sup>6</sup>

Political economy analysis and management can also be understood as ‘change management’, which ‘includes managing opposition, creating and heralding quick wins, taking advantage of opportune moments, and putting together and maintaining a supportive coalition’ (European Commission 2005: 24).

Yet, political economy approaches are far from representing a homogenous group of approaches, due to the lack of a common interdisciplinary understanding and academic definition of the term ‘political economy’. Consequently, these approaches can mean very different things to people with different academic and professional backgrounds, for example, political scientists, economists and sociologists

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<sup>3</sup> Especially the development of DFID’s ‘Drivers of Change’ approach in 2003 has boosted the popularity of political economy approaches. Often, political economy approaches are seen as a sub-group of so-called ‘Governance Assessments’ (see OECD 2008b, OECD 2009).

<sup>4</sup> In 2008, three of the leading development partners have started to break down political economy approaches to the sector level. For example, the World Bank published the ‘The Political Economy of Policy Reform’ framework (World Bank 2008b), DFID started to review its ‘Drivers of Change’ approach (DFID 2009) and the European Commission finalised the ‘Sector Governance Analysis Framework’ (European Commission 2008).

<sup>5</sup> This definition is adopted from Collinson (2003:3).

<sup>6</sup> According to Collinson (2003:6), the main difference is the different set of questions applied in political economy analysis: Instead of asking short-term, technical and apolitical ‘what’ questions, development partners need to start asking long-term and political ‘why’ and ‘how’ questions. For example instead of asking ‘What social group faces acute food insecurity?’ donors need to start asking ‘Why is this particular social group facing acute food insecurity?’ and ‘How could this be overcome?’.

all understand the term differently. Moreover, the understanding of political economy changed over time, depending on the predominant school of thought (see Box 2.1).

**Box 2.1: What does political economy actually mean? A typology based on the definitions in UK's leading academic dictionaries**

**Three main periods of research: classical, neoclassical and institutional political economy**

Political economy meant different things at different times. Broadly speaking, three main periods of political economy-related research can be distinguished: classical political economy (1750s-1850s), neoclassical political economy (1860s-1980s) and institutional political economy (since the 1990s). These periods have created their specific schools of thought that have been evolving and that are coexisting:

- *Classical political economy* emerged as a distinct field of scholarship during the eighteenth century against the background of industrialisation and the establishment of a capitalist economic system in Europe. It focuses on the interrelationship between labour and capital in the production process, rents, the interaction of classes and the rise of a commercial and industrial bourgeoisie challenging feudalism and absolutism. The most important representatives were Adam Smith, David Ricardo, John Stewart Mill, Karl Marx and Friedrich Engels. They were all universal scholars covering philosophy, economics and political science. Therefore, classical political economy can be termed a 'predisciplinary field of inquiry'.<sup>7</sup>
- *Neoclassical political economy* is based on the rise of neoclassical economics. It focuses on the efficient allocation of scarce factors of production to competing uses, sees the causes of economic crisis outside the economic system and tries to develop a 'universal, transhistorical analysis of economic activities based on a general model of rational economic calculation'.<sup>8</sup> Due to this narrow perspective, critics have labelled this school of thought as 'vulgar' political economy.<sup>9</sup>
- *Institutional political economy* is evolving since the 1990s, based on the groundbreaking work on new institutional economics. It focuses on the role of human-made formal and informal institutions and their incentives and constraints for economic behaviour and performance. It argues that institutions matter: 'there can be no pure, isolated economic calculation and conduct because these are always shaped by specific economic institutions and market relations and their embedding in a complex extra-economic environment'.<sup>10</sup> The founding father of new institutional economics, Douglas North, understands his research as a major step towards 'reconciling differences between economics and other social sciences'.<sup>11</sup>

**Divides between the disciplines: political, economic and sociological understandings**

Political economy means different things to different people. The understanding and scope of political economy also vary considerably between the academic disciplines dealing with political economy issues. Since the predisciplinary classical period, the field of political economy has been researched by specialised academic disciplines, notably political science, economics and sociology, which have developed their specific theories, methodologies and focal issues. As a result, there is no commonly agreed short and sweet definition of political economy:

- In *political science*, political economy is broadly defined as the 'interaction between the economy, the polity and society'.<sup>12</sup> However, there is little consensus on the concept within political science: 'confusion has always surrounded the concept of political economy'.<sup>13</sup> The descriptions focus on the state's role in commerce and international trade and the key issues are economic policies, such as Mercantilism, and political systems, such as democracy.<sup>14</sup> Moreover, state interference in the economic sphere is considered

<sup>7</sup> Cambridge Dictionary of Sociology, 2006.

<sup>8</sup> Cambridge Dictionary of Sociology, 2006.

<sup>9</sup> See Cambridge Dictionary of Sociology, 2006.

<sup>10</sup> Cambridge Dictionary of Sociology, 2006.

<sup>11</sup> North (1990:5).

<sup>12</sup> The Blackwell Dictionary of Political Science, 1999.

<sup>13</sup> The Black well Dictionary of Political Science, 1999.

<sup>14</sup> See The Blackwell Dictionary of Political Science, 1999.

necessary to both provide subsistence for the citizens and for raising the revenues needed for the civil service.

- In *economics*, political economy is defined as a synonym for economics. According to this interpretation, political economy is a ‘traditional term for the study of economics. More recently it has been referred to as simply “economics”’.<sup>15</sup> This economic interpretation is identical with the understanding of neoclassical political economy. Therefore, political scientists and sociologists criticise this definition as ‘economic imperialism’, that is, economic analysis is extended to social spheres that are not profit-oriented or market-mediated economic activities.
- In *sociology*, political economy is broadly defined as the ‘interdependent workings and interests of political and economic systems’.<sup>16</sup> The dictionaries provide detailed descriptions on the rolling back of feudalism, the consolidation of capitalism, the critique of capitalism, the conflicts between classes and the role of specific social groups, such as the proletariat and the bourgeoisie. In this understanding, political economy draws attention to how the state actively ‘protects and promotes the interests of those who dominate and benefit most from it’ and how the state ‘depends on the economic system for its resources’.<sup>17</sup>

Source: Compilation by the author

Development practitioners and researchers need to be aware of the different understandings and scopes of political economy before they take their own stand and develop or refine sector-level political economy approaches. Depending on their understanding of political economy, their approaches will focus on very different perspectives, actors and issues.<sup>18</sup>

In recent years, development researchers have started to develop a shared understanding of political economy. Recent publications are using the label ‘political economy analysis’ for a new type of inter- and multidisciplinary approaches in development research and practice (see Landell-Mills et al. 2006:1). According to Landell-Mills et al. (2006:1), ‘*new* political economy approaches’ have a broader perspective – they do not only look at the interrelationship of political and economic factors, but also explicitly take into account the social, cultural and religious factors impacting on the policy process.<sup>19</sup> This sourcebook shares this new interdisciplinary and institution-centred understanding.

Whether, when and how sector reforms are being initiated and implemented depends to a large extent on the political dynamics within and beyond the sectors concerned. Four types of dynamics influence the overall reform dynamics:

- *Sector-internal dynamics* (e.g. parents call for better education, a disastrous drought requires structural reforms in agriculture and irrigation, technological innovation allows restructuring the energy sector, etc);
- *Cross-sectoral dynamics* – i.e. dynamics in some sectors have positive or negative effects on the dynamics in other sectors (e.g. reforms of higher education and vocational training provide more qualified staff for sector ministries and agencies, delays in decentralisation reforms can slow down related reforms in the service delivery sectors, etc);

<sup>15</sup> Dictionary of Economics, Wiley, 1995. See also: ‘See economics.’ In: The Penguin Dictionary of Economics, 2003.

<sup>16</sup> The Blackwell Dictionary of Sociology, 2000.

<sup>17</sup> See The Blackwell Dictionary of Sociology, 2000.

<sup>18</sup> For example, the approaches could focus on a wider social science perspective or a narrow economics-centred perspective; the influence of the political system on the economic system (e.g. economic policy) or the influence of the economic system on the political system (e.g. lobbying or strikes); the political system’s need for the economic system (e.g. public revenues) or the economic system’s need for the political system (e.g. trade liberalisation); the nature of political and economic systems (e.g. democracy and social market economy) or the nature of political and economic processes (e.g. democratisation and industrialisation); the role of specific societal actors in development (e.g. middle class or bourgeoisie) or the interaction of these actors (e.g. peasants vs. landlords) or the role of political and economic institutions in shaping incentives and constraints (e.g. rent-seeking or market access).

<sup>19</sup> This is important, because social factors can overlay economic factors. In the West Bank, for example, the use of wastewater for irrigation could be a lucrative business (economic incentives), but using wastewater is often considered a ‘dirty business’ inappropriate for faithful Muslims (cultural and religious constraints).

- *Dynamics of the political decision-making process* (e.g. strong opposition parties in parliament can block or slow down reforms, electoral cycles and election campaigns represent periods with high political attention for policy changes, the head of state or government can be a powerful champion for reform in a specific sector, etc);
- *Dynamics at the country-level* (e.g. economic crisis forces the government to initiate structural reforms, rising oil prices allow for increased public spending in oil-producing countries, EU-accession requires reforms in several sectors at the same time, a political stalemate at the national level can block all reforms in a country, etc).

Therefore, this sourcebook defines sector-level political economy approaches as follows:

*Sector-level political economy approaches aim to better understand and more effectively influence the political, economic and social structures, institutions, processes and actors determining the political dynamics of sector reforms. Four types of dynamics determine the political dynamics of sector reforms: sector-internal dynamics, cross-sectoral dynamics, the dynamics of the political process and country-wide dynamics.*

## **2.2 Why have sector-level political economy approaches become increasingly popular over the last years?**

According to the OECD (2005:1;21), political economy analysis operates at the ‘cutting edge of development’ and there is a ‘strong groundswell of interest and support for better understanding of the political and institutional context of development among bilateral and multilateral donors.’ As a result, there are hardly any development issues that have not yet been analysed through a political economy perspective.<sup>20</sup> Until recently, most of this focus has been on country-level approaches<sup>21</sup>, therefore, sector-level political economy approaches are still largely unknown territory.

Recent efforts are seeking to ‘drill down to the sector level’ and to find out what helps or hinders sector policy reforms. So far, however, many of the few existing approaches are in an early stage of conceptual development<sup>22</sup>, have not yet been tested in the field<sup>23</sup> or the studies have not been replicated.<sup>24</sup>

The present popularity of sector-level political economy approaches has been facilitated by the following two factors:

### **Increasing recognition of the key role politics plays in development and development cooperation:**

- *Development is increasingly seen as an inherently political process.* For example, the 2006 DFID White Paper on International Development points out: ‘This is about politics. Politics determines how resources are used and policies are made. And politics determines who benefits. In short good governance is about good politics’ (DFID 2006:23). According to Landell-Mills et al. (2006:1), ‘one of the main weaknesses of recent development discourse has been its detachment from political and social realities.’ The well-established country-level political economy approaches have further increased the interest in the role of power and politics in development (see DFID 2004; OECD 2005; Sida 2006).
- *Development cooperation is increasingly seen as an inherently political activity.* According to Warrener (2004:21), ‘all donor interventions are political and inevitably interact and influence the

<sup>20</sup> The journal articles are ranging from the ‘The Political Economy of Global Conflict’ to ‘The Political Economy of Malaria Epidemics in Colonial Swaziland’ (see [www.jstor.org](http://www.jstor.org)).

<sup>21</sup> At the country-level, political economy analysis is now well established and donor agencies have developed a wide variety of different approaches (see DFID 2005; Sida 2006; OECD 2005; OECD 2009). In this increasingly overcrowded field, the challenge is more to test, refine, synthesise and combine the existing approaches rather than developing new ones (see OECD 2008b; OECD 2009).

<sup>22</sup> See Buse et al., forthcoming.

<sup>23</sup> See European Commission 2008; World Bank 2008b; Moncrieffe & Luttrell 2005; Plummer & Slaymaker 2007; Leftwich 2007.

<sup>24</sup> See Strand 1998; Farrington & Saasa 2002; Dinar et al. 1998.

political context of the country'. Yet, 'donors have traditionally shied away from engaging with the political realm; the predominant view of politics has been as a factor that serves to hinder success' and many had concerns about getting involved in politics (Warrener 2004:iii).

- *Good policies do not necessarily translate into good development outcomes.* Experience has shown that sound policies are often not implemented properly, if they are imported rather than the outcome of domestic political processes or if the domestic institutional framework does not lead to good policies (see Stein et al. 2005:255f). Therefore, development partners need to move from 'getting *policies* right' to 'getting *politics* right' (Hyden 2005). According to Landell-Mills et al. (2006:1), 'development agencies have offered numerous prescriptions for policy reform, institution building and better governance, but have not given sufficient consideration to understanding *how* such change will come about in different contexts.'
- *Political will of partners is expected to facilitate reforms and to improve aid effectiveness.* Development partners and research institutes are hoping that stronger political will for reform in developing countries will improve aid effectiveness and to boost progress towards the MDGs (see DFID 2005b; Williams et al. 2007; De Haan & Everest-Phillips 2007). In the past, evaluations of development measures commonly used the phrase 'lack of political will' to explain failed development projects, but failed to explain its absence (see DFID 2006:23; Landell-Mills et al. 2006:1). Political economy analysis seeks to explain the political will for sector reforms from within the political system (see Leftwich 2007; European Commission 2008:13).

#### **Increasing recognition of the key role of politics in sector reforms and sector development:**

- *Sector-based aid architecture requires sector-level political economy approaches.* Development partners have started to develop sector-level political economy approaches since the present system of development co-operation is strongly based on support to sectors. Therefore, sector-level political economy studies better fit into the development partners' sectoral strategies, concepts, funds, experts as well as monitoring and evaluation frameworks.
- *Supporting sustainable sector development requires understanding the politics in the sector:* 'Although technical matters remain important, democratic governance has moved to the centre stage in sector operations' (European Commission 2008:12). Some sector specialists of the European Commission claim that up to 70 percent of what they are doing is related to governance (see European Commission 2008:8). Therefore, development partners need to understand the political economy of sector reforms and the factors that have a strong influence on the opportunities for effective reform within the sector and beyond (see European Commission 2008:12).
- *Investing in sector governance helps to achieve better and more sustainable results.* According to the European Commission (2008:9), adequate governance conditions are critical for sustainable sector development and aid effectiveness. Many evaluations link the limited success of donor supported sector programmes primarily to governance problems. Therefore, addressing these sector governance challenges can help to create a more conducive environment for the transparent, effective and accountable use of aid in sectors (see European Commission 2008:13).
- *Different sectors are facing different political opportunities and challenges.* 'Each policy has its own politics' (see Stein et al. 2005:21). In the water sector, there is usually fierce competition among different user groups for scarce resources. In this sector, development partners need to mediate conflicts and to ensure equitable access to essential resources (see European Commission 2008:12). The development in the mining sector, in turn, is strongly influenced by commercial interests. In this sector, development partners need to protect the interests of local communities, enhance corporate responsibility and promote the regulatory role of governments. In the case of politically sensitive land reforms, development partners need to take into account traditional chiefs (see European Commission 2008:12).

In order to support this new trend and to facilitate the collective learning process between and within development partners and research institutes, being informed of existing sector-level approaches is key.

## 2.3 What approaches, frameworks and studies are already out there?

Sector-level political economy approaches need to take into account all factors impacting on sector reforms. Therefore, sector-level approaches comprise all approaches, frameworks and studies that can contribute to this challenge. This sourcebook presents the following two groups of approaches (see Table 2.1):

### **Sector-level political economy approaches, frameworks and studies**

These are approaches specifically designed to analyse and influence the political economy characteristics and dynamics of sector reforms. They seek to find out how these sectors work and how sector reforms could be best supported (see Chapter 3) and include the following steps:

1. *Analysis of country-level context for sector reform*: represents a brief analysis of the macro-level structural and historical features as well as the interaction of country-level institutions and actors.
2. *Analysis of sector characteristics, performance and challenges*: comprises of a detailed analysis of the structural and historical features, the institutions and actors as well as the most pressing problems in the sectors.
3. *Analysis of the policy content, consequences and political viability of proposed policies or policy changes*: analyses expected impacts of planned policies or policy changes on poverty reduction and distribution of power and resources among the actors in the sector.
4. *Analysis of the domestic policy making and implementation process*: provides a detailed analysis of the political institutions, incentives and actors that shape policy-making processes and influence policy outcomes.
5. *Analysis of the key actors, interests and relationships between these actors*: examines formal and informal interaction between the political, economic and social actors and their positions, interests, powers and engagement strategies.
6. *Policy management and operational implications*: assesses possible entry points for donor support to sector reforms.

### **Country-level and politics-centred political economy approaches with interesting lessons learned for sector-level political economy approaches**

- *Country-level political economy approaches*: Approaches that aim to analyse and influence the structures, institutions, processes and actors at the country-level. They have made political economy analysis popular and have produced a substantial number of country-level studies. They help to better understand the country context of sector reforms and provide interesting lessons learned for sector-level approaches (see Chapter 4).
- *Politics-centred political economy approaches*: These approaches focus on analysing and influencing the political decision making and implementation processes. They focus on specific issues, such as the functioning of the formal decision-making process, the role of scientific evidence in the policy-making process or the assessment of the political viability of reforms. They help to deepen the understanding and allow for more effective management of the politics of sector reforms (see Chapter 4).

Table 2.1: Overview of political economy approaches, frameworks and studies presented

Approach	Analysis of country-level context for sector reform	Analysis of sector characteristics, performance and challenges	Analysis of policy content, consequences and political viability of policy change	Analysis of domestic policy making and implementation process	Analysis of key actors, interests and relationships between actors	Policy management and operational implications
<b>Sector-level political economy approaches</b>						
Poverty and social impact analysis (World Bank)	•	•	•		•	•
An analytical framework for understanding the political economy of sectors and policy arenas (ODI)	•	•		•	•	•
Rethinking governance in the water sector (ODI)	•	•			•	
The political economy of policy reform (World Bank)	•	•			•	•
The sector governance analysis framework (European Commission)	•	•			•	•
The policy engagement framework (ODI)	•	•	•	•	•	
The political economy and political risks of institutional reform in the water sector (World Bank)	•	•	•		•	•
Water pricing in Honduras: A political economy analysis (Strand)		•			•	
Drivers for change in Zambian agriculture (ODI)	•	•		•	•	
<b>Country-level and politics-centred political economy approaches with interesting lessons for sector-level approaches</b>						
Drivers of Change approach (DFID)	•		•		•	•
Power Analysis (Sida)	•		•		•	•
The capability, accountability, responsiveness framework (DFID)				•	•	
The context, evidence, links framework (ODI)	•		•	•	•	•
The politics of policies approach (IADB)			•	•	•	•
From drivers of change to politics of development (DFID)	•			•	•	

Source: Compilation by the author

## 2.4 Brief description of the political economy approaches, frameworks and studies presented in this sourcebook

This section sets out to describe the approaches, frameworks and studies presented in this sourcebook and shows where they can be found.

### Sector-level political economy approaches:

The wide range of existing sector-level approaches provides several interesting ways to better understand and more effectively influence sector-internal and cross-sectoral dynamics in sector reform processes:

The World Bank's *Poverty and Social Impact Analysis* provides a systematic and detailed assessment of the distributional impact of policy changes on the well-being of different social groups. Thus, it helps to identify the winners and losers of reform and to manage opposition to reform (see Section 3.1).

The DFID commissioned *Framework for understanding the political economy of sectors and policy arenas* aims to facilitate deeper understanding of domestic sector policy arenas and to provide political explanations for sector development. The framework provides a number of detailed matrices for analyses (see Section 3.2).

The DFID commissioned *Rethinking governance in the water sector* explores how the Drivers of Change approach and the Capability, Accountability, Responsiveness framework could be applied to the analysis of governance in the water sector. It shows how important the sector-specific governance characteristics are for sector reform (see Section 3.3).

The World Bank's *Political Economy of Policy Reform* approach provides a diagnostic and action framework to analyse and manage the context, arena and process of sector policy change. It is particularly helpful due to its empirical grounding, its focus on policy management and the case studies on the water sector and agriculture (see Section 3.4).

The European Commission's *Sector Governance Analysis Framework* systematically analyses the core governance issues at sector level and in particular how power and politics influence sector performance and results. It is particularly interesting due to the theoretical grounding of the framework; detailed operational implications and the combination of sector and governance expertise (see Section 3.5).

The *Policy Engagement Framework* by Kent Buse et al. aims at better understanding how policies can be successfully designed and implemented under given political conditions. References to the policy cycle, the focus on political communication and the case studies on health and labour policy are particularly insightful (see Section 3.6).

The study *Political Economy and Political Risks of Institutional Reform in the Water Sector* by Ariel Dinar aims to calculate the political risk associated with institutional reforms. It provides a clear focus on the analysis and management of political risks and detailed information on the reforms in the irrigation sector in Pakistan (see Section 3.7).

The study *Water Pricing in Honduras: A political economy analysis* by Jon Strand provides a problem-centred, very focused and detailed analysis of actors, institutions and incentives in the drinking water sector. With a clear focus on a sub-sector and the detailed analysis of the challenges in the sub-sector and the functioning of the policy making process, it proves particularly convincing (see Section 3.8).

The DFID commissioned study *Drivers for change in Zambian agriculture* analyses the political decision-making process, the political actors and their incentives in Zambian agriculture. The study applies an early version of the Drivers of Change approach to the sector-level and explains convincingly how the sector is embedded in the overall political structures, processes and culture (see Section 3.9).

### **Country-level and politics-centred political economy approaches:**

There exists a wide range of country-level and politics-centred approaches that provide discerning lessons and methodologies that could be integrated in sector-level approaches:

DFID's *Drivers of Change* approach provides a historically informed political analysis of country contexts as a basis for aid strategies. Extensively tested in the field, it provides key insights into the process of socio-political change by analysing the interaction of structural features, institutions and actors (see Section 4.1).

Sida's *Power Analysis* approach examines changes in the distribution of power in society and its impact on poverty reduction. The approach is theoretically well-grounded in academic literature on power, voice, responsiveness and accountability and provides many interesting lessons learned for sector-level approaches (see Section 4.2).

DFID's *Capability, Accountability, Responsiveness* framework aims to better understand and influence the governance factors that impact on poverty reduction. This approach is based on the proviso that poverty reduction is most effective, when governments are capable, accountable to the citizens and responsive to the needs of the citizens (see Section 4.3).

The ODI's *Context, Evidence, Links* framework helps to better understand under what circumstances knowledge, scientific evidence and research can influence political decision-making processes. It analyses the political context, the evidence and the links between policy and research communities and provides insight into the politics-research nexus (see Section 4.4).

The Inter-American Development Bank's *Politics of Policy* approach takes policies and policy change as outcomes of a contingent political process. By analysing the policy making process, its institutions, actors and interactions in detail, this approach can offer insights into formal and informal political arenas, the political players and the dynamic game of policy making (see Section 4.5).

The DFID-commissioned study, *From Drivers of Change to Politics of Development*, aims at refining the Drivers of Change approach by sharpening the understanding of the political process. It analyses the formal and informal rules that govern the behaviour of the political actors, to better understand the politics of policy change (see Section 4.6).

## 2.5 What are the strengths, weaknesses and gaps of the existing sector-level political economy approaches, frameworks and studies?

The body of existing sector-level political economy approaches can be characterised by the following strengths, weaknesses and gaps.

### Strengths:

The biggest *strengths* of the existing approaches are their focus on core development issues, methodological diversity and dynamic evolution:

- *Focus on core development issues:* Sector-level political economy approaches focus on the issues that are of critical importance for successful sector reforms: political will for reform; processes of political, economic and social change; underlying institutions and incentive structures; binding constraints in sector development; opposition to reforms; windows of opportunity for reform; etc.
- *Methodological diversity:* Existing sector-level approaches are characterised by a wide variety of frameworks, perspectives and foci. Some approaches look at the whole sector to sketch the big picture, whilst others focus on specific challenges in sub-sectors and zoom in on a specific issue. The combination of approaches looking at different scales is necessary, since the political dynamics of reforms at the sector-level are influenced by dynamics at different levels: sector-specific, cross-sectoral, policy process-related and country-level dynamics. This diversity provides rich food for thought around refining existing approaches and developing new approaches.<sup>25</sup>
- *Dynamic evolution:* The body of sector-level approaches is rapidly growing and evolving. This dynamic helps to adapt approaches to rapidly changing contexts as well as taking into account the increasing knowledge on sector reforms.

### Weaknesses:

The body of existing sector-level approaches suffers from the following three main *weaknesses*:

- *Very few empirical, comparable and publicly accessible sector studies:* Having a very small number of sector-level political economy studies in specific sectors makes it difficult – if not impossible – to identify key factors influencing political dynamics of reforms in these specific sectors. This lack of publicly accessible political economy studies might result from two reasons: available

<sup>25</sup> The OECD (2005:i) supports the plurality of approaches: 'While there is no agreement on what conceptual framework to employ, a common framework may not be desirable since a variety of approaches may generate useful contrasts and insights'.

frameworks are too difficult to apply in practice or results of the studies are too sensitive to be published.

- *Very few policy management-oriented action frameworks and matrices:* The analytical frameworks and matrices are often based on desk studies and very comprehensive, detailed and sometimes confusing descriptions of potentially relevant factors. As a result, there is a lack of strategic, targeted and lean action frameworks focusing on policy management.
- *Limited theoretical guidance in some of the approaches, frameworks and matrices:* Some of the approaches do not provide sufficiently clear and concrete theoretical guidance on how to identify and influence the core dynamics of sector reforms. A more explicit reference to academic theories could help to focus analysis and management on the key factors and dynamics.

### Gaps:

Table 2.1 shows that the existing sector-level political economy approaches are mainly analysing the country-level reform context and sector characteristics as well as actors and their relationships in the sector reform process. Therefore, the following three *gaps* can be identified:

- *Policy content, consequences and political viability of policy or policy change:* Only very few of the approaches explicitly and extensively take into account the political viability of proposed sector policies or sector reforms. Analysis of public opinion and popular backing of or resistance to reform and management of political opposition to reform or identification of politically viable second-best options receive relatively little attention.
- *Domestic policy making and implementation process:* Very few approaches explicitly and extensively analyse domestic policy making and implementation processes. This is astonishing, as it forms the core process for sector reforms by defining rules, arenas and players of the domestic political game.
- *Policy management and operational implications:* Majority of approaches focus on policy analysis and only touch briefly on policy management. Some of the approaches explicitly highlight operational implications, but many recommendations provide little strategic guidance for action and few concrete entry points for support to sector reforms.

### Addressing the gaps:

These three main gaps can be filled by learning from the country-level and politics-centred approaches presented in this sourcebook (see Table 2.1). These approaches can help to fill these gaps by:

- *Further sensitizing development partners and research institutes for political economy approaches:* Country-level and politics-centred political economy approaches have sensitized development partners and research institutes for the need of political economy approaches (esp. Drivers of Change and Power Analysis, Sections 4.1 and 4.2). The popularity of these country-level approaches can further contribute to increasing recognition and popularity of sector-level political economy approaches.
- *Deepening the understanding of the country-level and political process dynamics:* Country-level and politics-centred political economy approaches play a role in understanding the broader political dynamics in which sector reforms are embedded. Politics-centred approaches could be particularly helpful in learning about and influencing political decision-making and implementation processes and general dynamics for sector reforms. This could help to sharpen analyses of policy content, consequences and political viability of policies or policy changes as well as political decision making and implementation processes.
- *Providing many interesting lessons learned for political economy analysis and management:* Well-established country-level and politics-centred political economy approaches provide many lessons that could prove interesting for sector-level policy analysis and management (see Section 4.1 and 4.3). For example, sector-level approaches could learn from findings related to operational implications, such as the dissemination and use of the studies to inform public debates. Moreover,

sector-level political economy approaches could build on and learn from existing work on so-called governance assessments, which include many country-level political economy approaches (see Box 2.2):

**Box 2.2: Guiding principles for enhanced impact, usage and harmonisation of governance assessments**

Building on and strengthening nationally driven governance assessments:

- Drawing on, and aligning with, nationally driven or peer-based assessments.
- Engaging in strengthening domestic capacity to assess and debate governance issues.
- Involving partner country stakeholders in tool development.

Identifying a clear purpose to drive the choice of assessment tools and processes:

- Separating governance assessments intended for an agency's internal purpose from those for impact on partner country processes.
- Limiting the number of purposes of a single governance assessment, and rely on various types of governance assessments.

Assessing and addressing governance from different entry points and perspectives:

- Embracing diversity and further development of governance concepts.
- Making assumptions, use of concepts and methodologies explicit and publicly available.
- Promoting joint governance assessments integrated in diagnostics for sectoral and thematic programmes.

Harmonising assessments at country level when the aim is to stimulate dialogue and governance reform:

- Harmonising when there is a clear added value.
- Drawing on ongoing processes and limiting transaction costs for partners.

Making results public unless there are compelling reasons not to do so:

- Making assessment results public whenever possible.
- Clarifying and agreeing on what transparency means beforehand.

Source: OECD (2009a)

## 3 Sector-level political economy approaches, frameworks and studies

### 3.1 Poverty and social impact analysis

#### Conceptual approach: Why is this approach interesting for sector-level policy analysis?

In 2001, the World Bank developed the ‘Poverty and Social Impact Analysis’ (PSIA) framework to promote more systematic assessment of policy reform impacts on poor and vulnerable people. PSIA is an ‘analysis of the distributional impact of policy reforms on the well-being of different stakeholder groups, with a particular focus on the poor and the vulnerable’ (World Bank, 2003: vii). This framework seeks to identify distributional impacts of proposed policies and policy changes (e.g. who is affected, how, when and how much). This is important for two reasons: firstly, this analysis can make policies more pro-poor; and secondly, insights into expected costs and benefits of reform can help identify opposition and support, that is ‘losers’ and ‘winners’.

#### Methodology: What are the building blocks, steps and operational implications of the analysis?

Since 2001, the PSIA approach has been evolved. The ‘first generation’ of PSIAs was mainly used to inform the development of Poverty Reduction Strategy Papers (PRSPs). After 2004, the ‘second generation’ of PSIAs was used to inform the World Bank’s own operations. Since 2007, a ‘third generation’ has become an integral part of the key policy and strategy development processes (e.g. PRSPs, Country Assistance Strategies and Public Expenditure Reviews). In addition, bilateral donor agencies (e.g. DFID and GTZ) have applied and taken forward the PSIA framework either jointly with the World Bank or independently. As a result, there is a range of ‘types’ of PSIA with highly differing scopes and contents (e.g. country-level and sector-level studies, more or less stakeholder participation, different mixes of data sources and types of analyses). Consequently, the World Bank’s User’s Guide to PSIA (2003) provides 10 principles (‘elements’) for PSIA best practice, rather than a set methodological framework.<sup>26</sup>

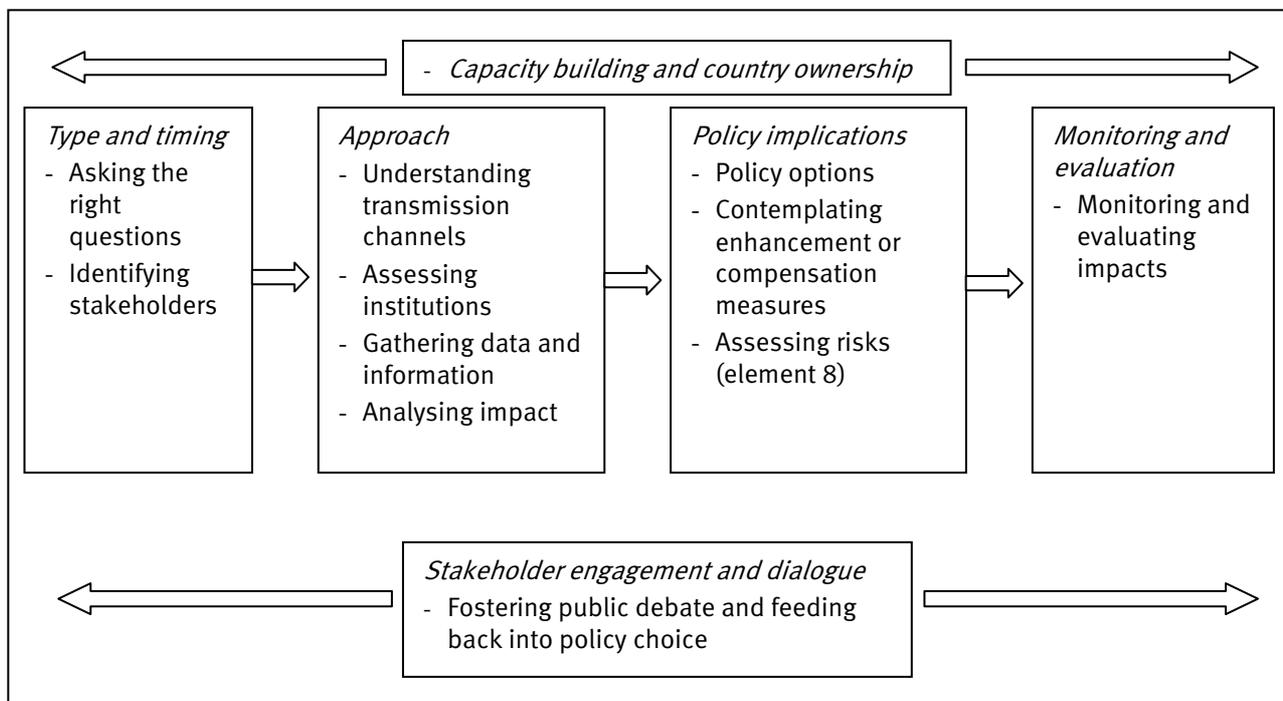
1. **Asking the right questions:** Identify policy reforms (e.g. extent and direction of impacts on poverty, timing and urgency of reform, prominence of this reform on the government’s agenda, the level of national debate surrounding the reform) and formulate the key questions for analysis (e.g. underlying problems that a reform needs to address, identify chains of cause-effect relationships, assess policy constraints).
2. **Identifying the stakeholders:** Identify all relevant stakeholders at an early stage (e.g. through stakeholder mapping, key informant interviews, literature review) and understand how policy choices affect stakeholders in different ways.
3. **Understanding the transmission channels:** Understand transmission channels through which proposed policies will impact on the stakeholders (e.g. on employment, prices, access to goods and services, transfers and taxes). Distinguish impacts in direct/indirect impacts and short/long-term impacts.
4. **Assessing institutions:** Analyse institutions that mediate the transmission of impacts of proposed policies on stakeholders (e.g. markets, legal systems, formal rules and informal behaviour of implementing agencies).
5. **Gathering data and information:** Define relevant data and data collection instruments (e.g. numeric or non-numeric data, qualitative or quantitative data), take stock of the existing data and analyses, use data sets that minimises limitations of various data and allows for real-time policy advice, build national capacity for data collection and analysis.

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<sup>26</sup> New PSIA assessments propose to integrate PSIA into country processes and to enhance domestic policy making processes by using PSIA to inform policy dialogue (see World Bank 2008).

6. **Analysing the impact:** Analyse poverty and distributional impacts of a policy on social and economic situation of various stakeholders. Integrate economic (e.g. public expenditure tracking surveys, quantitative service delivery surveys and household models) and social analysis (e.g. participatory poverty assessments and beneficiary assessments).
7. **Contemplating enhancement or compensation measures:** Minimise adverse impacts of proposed policies on poor and vulnerable groups by including pro-poor subsidies, including complimentary measures, sequencing of reforms or delaying reforms. Moreover, minimising the risk of reform failure by including complimentary or compensatory measures (especially, if the ‘losers’ of the reform have the capacity to threaten the sustainability of reform or the stability of the government).
8. **Assessing risks:** Conduct risk analysis to anticipate and avoid major unintended impacts regarding non-institutional risks (e.g. market failures or organisations behaving in unexpected ways), political economy risks (e.g. powerful interest groups undermining reform objectives), exogenous risks (e.g. natural disasters or regional economic crisis) or political risks (e.g. political instability or social tensions).
9. **Monitoring and evaluating impacts:** Monitoring and evaluation (M&E) can help to validate the ex-ante policy analysis (and improve the analysis for future PSIA) and can help to reformulate or fine-tune the policy. PSIA should build on existing in-country M&E systems to ensure sustainable monitoring and social accountability to domestic stakeholders.
10. **Fostering policy debate and feeding back into policy choice:** Encourage policy debate among stakeholders whose support is essential to the success of the proposed reform (e.g. technocrats, researchers, parliamentarians, civil society, private sector and donors), build ownership and develop consensus among key stakeholders and ensure that M&E findings are fed back into the redesign and adjustment of the reform (see Higgins 2008):

**Figure 3.1: The PSIA framework**



Source: Higgins (2008), based on World Bank (2003)

## **Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

### **Strengths:**

- The identification of the winners and losers of proposed reforms can help to minimise the adverse impact on the poor and make policies more pro-poor as well as to reduce the risks of reform failure by engaging with the losers of intended reforms. For example, the design of proposed policies and policy changes can include specific compensation measures for poor or vulnerable groups to minimise the expected adverse effects of reforms. PSIA can also identify potential opposition from key actors involved in the implementation process and can, for example, suggest compensation for the losers of reform that might delay or derail the reform process.
- The approach has been extensively tested and refined in many different country and sector contexts and is now very well documented. User guides, evaluations of the methodology as well as country and thematic studies are publicly accessible and provide a rich source of information and lessons learned. So far, about 70 thematic studies are publicly accessible.

### **Weaknesses:**

- So far, PSIA is not explicitly and extensively dealing with the domestic political process. The present approach focuses more on how a policy can be improved and how a technically sound policy can be better implemented rather than on how the domestic political process works that, at the end of the day, produces these policies. The recent shift from a more donor-driven to a more country-led approach can help to focus more on the domestic policy making and implementation process, to encourage policy debate and to facilitate consensus and ownership for reform within society.

### **Key references:**

World Bank website on PSIA: [www.worldbank.org/psia](http://www.worldbank.org/psia)

## **3.2 An analytical framework for understanding the political economy of sectors and policy arenas**

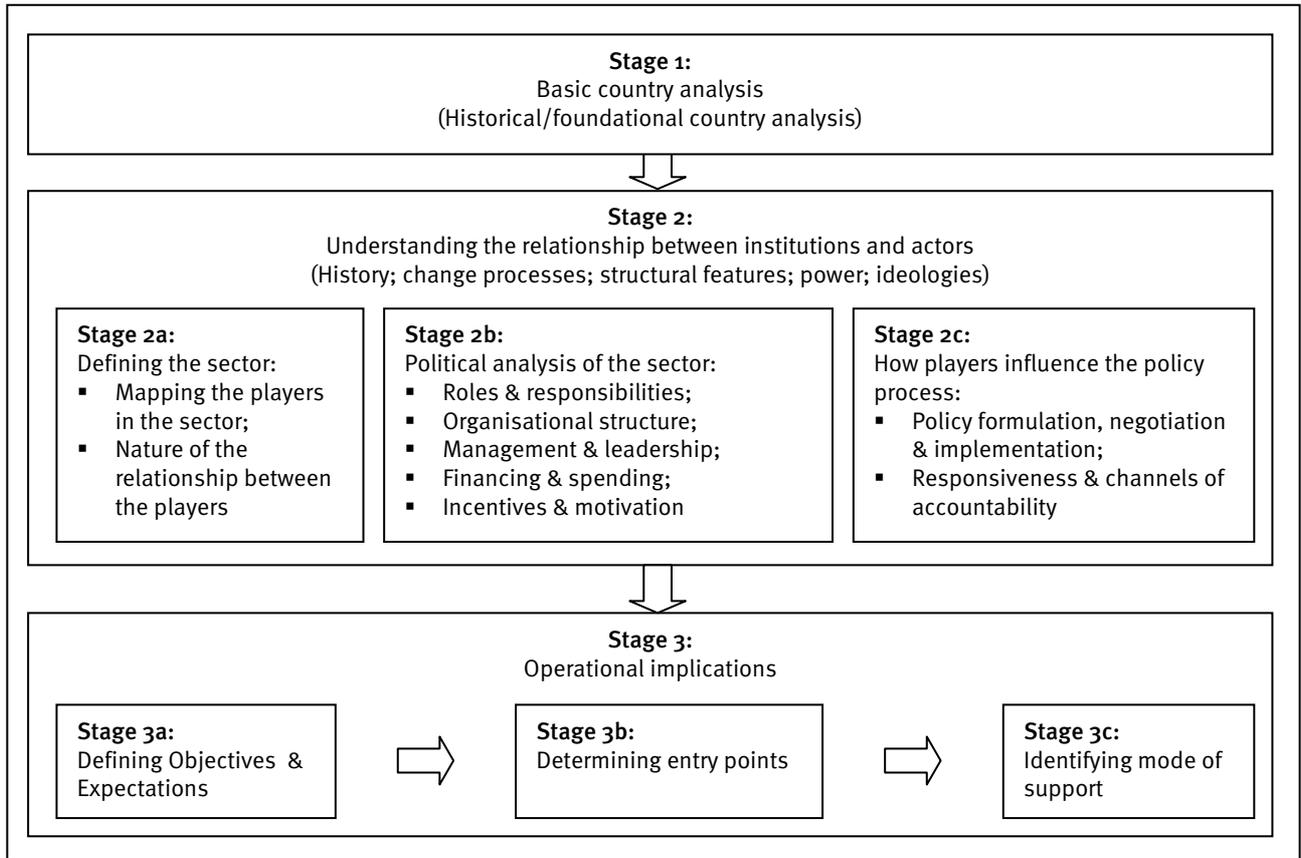
### **Conceptual approach: Why is this approach interesting for sector-level policy analysis?**

In 2005, DFID commissioned the ODI to develop a framework that provides guidance for DFID country office teams for designing and conducting analyses on the political economy of specific sectors and policy arenas. The framework aims at facilitating a deeper understanding of 'local' sector/policy arenas and at providing broad political explanations for how and why sectors differ within one national context. Moreover, it seeks to offer more focused explanations for variations across and within sectors and to provide guidelines that may help staff assess and reassess the appropriateness of interventions. The framework centres on three central questions: How do things happen within the sector? Why do things happen the way they do? What does this mean for donor interventions?

### **Methodology: What are the building blocks, steps and operational implications of the analysis?**

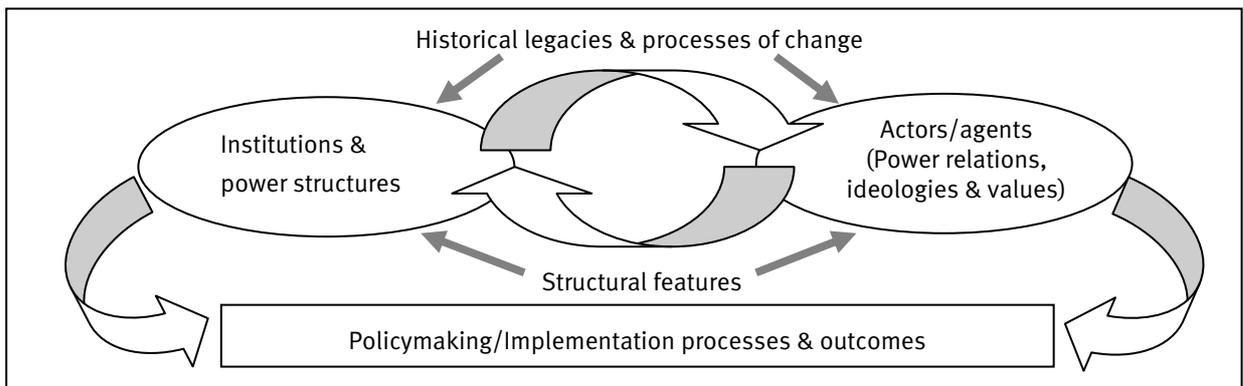
The analytical framework proposes a 3-stages process with a series of sub-analyses (see Moncrieffe & Luttrell 2005:5):

**Figure 3.2: Framework for political economy analysis of sectors**



Source: Moncrieffe & Luttrell (2005)

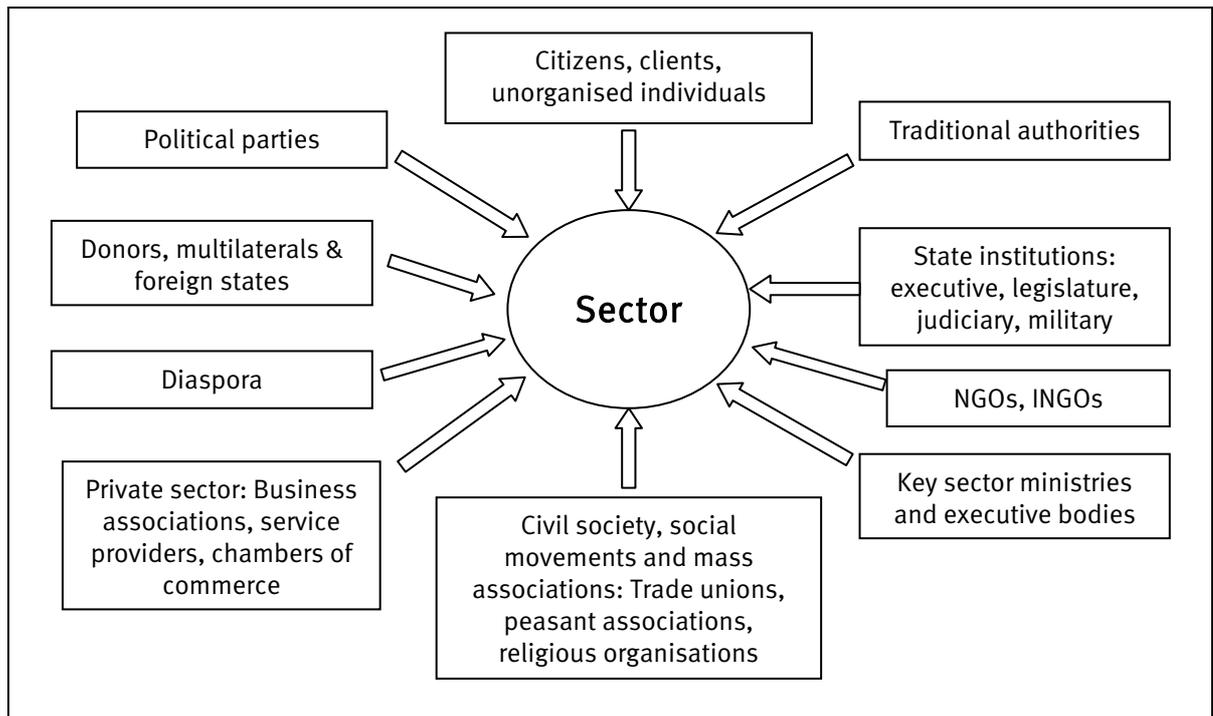
1. **Basic country analysis:** This sub-analysis analyses the broader historical/political context in which the sector is situated. It concentrates on how historical legacies, processes of change (e.g. short-term fluctuations and longer-term directional change) and structural features (e.g. demographic patterns and dynamics or social identities and allegiances) influence the relations between institutions and actors and, in turn, the policy-making and implementation process (see Moncrieffe & Luttrell 2005:7):



This analysis also includes the analysis of power and interests to explain the outcomes of policy-making processes as well as the ideologies and values that influence or even determine how individuals and organisations behave.

2. **Understanding the relationship between institutions and actors:** This sub-analysis analyses how institutions and actors interact and how their interactions influence the policymaking and implementation processes. The researcher is expected to ‘examine institution-actor relationships through the lens of historical legacies, processes of change, structural factors, power relations and ideologies, values and perceptions’ (Moncrieffe & Luttrell 2005:13):

a. *Defining the sector:* This sub-analysis sets out to define the boundaries of the sector and to map the players in the sector and the nature of the relationship between these players. The following figure presents a compilation of potential key actors affecting sectoral developments (see Moncrieffe & Luttrell 2005:14):



b. *Political analysis of the sector:* This sub-analysis seeks to conduct a ‘deep’ political analysis of the organisations active in the sector. It analyses the roles and responsibilities; the organisational structure; the management and leadership; the financing and spending as well as the incentives and motivation of these players. The framework provides the following matrix for organisational/political analysis (see Moncrieffe & Luttrell 2005:16):

	<b>Roles, Mandates, Responsibilities</b>	<b>Organisational Structure</b>	<b>Management, Leadership, Composition</b>	<b>Financing and Spending</b>	<b>Incentives and Motivation</b>	<b>Capacity</b>
<b>Basic Questions</b>	Official and unofficial roles/mandate of the organisation	Structure: central to local and horizontally; Power of different levels	Key actors (prominent and hidden) Basis for membership in different parts of organisation	Local/central financial balance; Degree of self-financing	Career progression opportunities; Level and distribution of remuneration	Variations in skills and resources; Adequacy of information base.
<b>Historical Legacies</b>	Effect of history on function and role	Basis for organisational structure that exists	Historical basis for management and leadership structure that exists; Implications for change	Influence of past priorities and financial and spending patterns	Legacy of past entry and career progression procedures	Historical reasons and implications of variations in capacity
<b>Structural Factors</b>	Effect of structural factors on power relations, ideologies and policy priorities	Can organisation respond to different demands and contexts?	The main factions (political, ethnic etc) and policy implications; How structural factors affect composition and power balances.	Effect of structural factors on financing and spending patterns	Effect of structural factors on incentives; Prospects for change?	Effect of structural factors on capacity and skills levels and implications for policy and change
<b>Change Processes</b>	Changes in roles, responsibilities and political discourse; Opportunities and blocks these present.	Changes in organisational structure; Opportunities and blocks these present	Changes in management and composition of the organisation; Opportunities and blocks these present	Changes in sources of finance and spending; Opportunities and blocks these present	Changes in incentives and association of these changes with broader processes	Changes in capacity and prospects for the future
<b>Power Relations</b>	Relationship between the mandate of the organisation and power dynamics	Balance of power across the organisation; Pockets of resistance and support	Degree to which power is vested in certain individuals or quarters; Inclusion/exclusion of different groups	Effect of funding source on policy; How do different constituencies seek to influence policy	Benefits and losses from changes in the incentive structure	Power of the organisation to define and implement policy
<b>Ideologies, Values, Perceptions</b>	Predominant values, ideologies, perceptions re key sector issues and degree to which these affect policy	Variations in ideology across the sector and effect on organisational structure	Values of key individuals (prominent and less visible) and effect on support or resistance to policy	Effect of values on spending priorities	Degree of transparency of recruitment. Main groups who benefit from the incentive system	Relationship between values and emphasis on capacity building; Implications for change

- c. *How players influence the policy process*: The following matrix offers a way to analyse how players influence policy formulation, negotiation and implementation; responsiveness and channels of accountability (see Moncrieffe & Luttrell 2005:19):

	<b>Policymaking; formulation, negotiation and implementation</b>	<b>Responsiveness and channels of accountability</b>
<b>Basic questions</b>	The formal and informal rules for policy making and implementation	Formal accountability mechanisms; methods for communicating policy; level of freedom of expression within the organisation
<b>Historical legacies</b>	Historical basis for rules that exist and their implications	Understandings of expectations of the state and accountability
<b>Structural factors</b>	The way in which the policy process is affected by structural factors	The effect of structural factors on ability of citizens to make demands or consultations to be carried out
<b>Change processes</b>	Trends in policymaking and reasons; the role of crises	Reactions to policy change; flexibility of the policy process to adapt to change
<b>Power relations</b>	The effect of power relations on the policy process; the distortion of policy in implementation	The accessibility of accountability mechanisms
<b>Ideologies, values, perceptions</b>	Conflicts and correspondence in ideologies and values; the (mis)match between rhetoric and policy outcomes	Nature of state-society relations; how actors express their views

3. **Operational implications**: This section seeks to define the objectives and expectations of development interventions, to determine entry points and to identify modes of support (see Moncrieffe & Luttrell 2005:20ff):
- a. *Defining objectives and expectations*: This section sets out to help DFID country offices to candidly re-assess their explicit and implicit objectives and to clarify the potentially differing expectations of the partner countries and the DFID country offices;
  - b. *Determining entry points*: This section sets out to determine potential entry points for interventions – both strategic and accessible institutions as well as important and influential individuals;
  - c. *Identifying mode of support*: This section sets out to identify the most appropriate mode of support – that is, whether DFID should act alone or together with other donors, whether the intervention should be short-term or long-term and/or what aid instrument should be used.

**Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

**Strengths:**

- As it combines a holistic view of sector reform process with many detailed matrices for analysis, this approach is particularly interesting for sector-level approaches. The framework covers all core components of sector-level political economy analysis: it starts with a basic country analysis and ends with operational implications.

**Weaknesses:**

- The framework presents many different potentially relevant factors, but often does not provide a clear and convincing theoretical explanation on the relevance and interaction of these factors. For example, the chart on basic country analysis presents many different potentially relevant factors, but fails to provide concrete and focused guidance on how to identify the most important factors and dynamics within such a complex reform context.

- The framework does not suggest adequate and ready-to-use practical guidance on how to identify concrete operational implications. For example, the matrices, such as one on political analysis of the sector, are too detailed about political organisations and not enough focus on political processes.
- Due to a lack of empirical studies, the approach could not yet be tested in practice and, therefore, could not be refined according to practical requirements.

#### Key references:

Moncrieffe, J. and Luttrell, C. (2005) *An Analytical Framework for Understanding the Political Economy of Sectors and Policy Arenas*. Report to DFID Policy Division. London: Overseas Development Institute.

### 3.3 Rethinking governance in the water sector

#### Conceptual approach: Why is this approach interesting for sector-level policy analysis?

In 2007, DFID commissioned the ODI to develop this framework. It aims at providing a basis for discussion and debate as to how DFID should improve its approach to governance in water services and to develop a more comprehensive and structured approach to governance in water services. So far, debates relating to governance in water services have been ‘highly fragmented’ and tend to narrowly focus on individual components rather than a bigger ‘governance picture’ (see Plummer & Slaymaker 2007:7). Moreover, there is currently no ‘real consensus’ on how to approach governance challenges in water services or to address linkages between sectoral performance and wider governance contexts. Therefore, there was a need to develop a more coherent unifying framework and agenda for action. In response to this gap, this framework seeks to explore how DFID’s existing frameworks for governance analysis at the country level – the ‘Capability, Accountability and Responsiveness’ (CAR) framework and the ‘Drivers of Change’ (DoC) approach – could be applied in the analysis of water services’ sector governance (see Sections 4.1 and 4.3).

#### Methodology: What are the building blocks, steps and operational implications of the analysis?

This approach sets out to ‘frame’ the debate on governance challenges in the water supply sector and to integrate existing DFID governance frameworks in a more coherent overarching sector governance and political economy framework (see Plummer & Slaymaker 2007:31). Therefore, it does not primarily seek to provide new analytical instruments, but rather applies existing country-level frameworks to the sector level. The framework proposes a 7-step process to carry out a ‘sector governance and political economy’ analysis and to support the development of better governance responses in water services (Plummer & Slaymaker 2007:29ff):

1. **Country governance assessment I:** A ‘country-level CAR analysis’ can assess the overall governance situation; the findings provide a big picture of general governance and political economy situation that helps to better understand constraints and opportunities of sector interventions.
2. **Country governance assessment II:** Various ‘country-level political economy studies’ (including DoC studies) can help to gain insight into underlying incentive structures for actors, distributions of power and constraints and opportunities for policy change.
3. **Sector level political economy analysis I:** An ‘overview of sector performance’ can provide the context within which the sector functions and performs (including data on the access to, quality of, reliability of water services disaggregated by geographical area and social group).
4. **Sector level political economy analysis II:** A sector CAR analysis could be used for a ‘mapping of sector governance’, providing an overview of sector governance. It analyses the capability, accountability and responsiveness of the key actors in specific problem areas.

5. **Sector level political economy analysis III:** A sector DoC analysis could be used for a ‘water power mapping’ as well. Gaining an overview of distribution of power between sector actors can provide detailed information on the most powerful sector actors, their power relations, their interactions, the institutions they use, their interests, their historical traditions as well as deep-rooted beliefs and values.
6. **Sector level political economy analysis IV:** A sector DoC analysis could be used for the ‘identification of main drivers of change’; this analysis could identify applied incentives and interests for key issues (e.g. decentralisation) or existing constraints in the sector and could lead to possible entry points for action.
7. **Recommended actions to address sector drivers of change:** Addressing perverse incentive structures and political economy constraints can highlight which challenges need to be addressed within the sector versus challenges external to the sector. These challenges and their positioning then determine the resulting recommendations for action.

In addition, the framework provides concrete guidance on the analysis of governance features and challenges at the sector level. The framework points out that governance challenges differ in each sector due to sector-specific characteristics. Water service delivery faces particularly serious governance challenges due to the following sector-specific features (see Plummer & Slaymaker 2007:7f):

*Service sector:* Accountability of service providers to customers is critical; increasing access to services is easier to achieve than improving service quality; labour unions of service providers and civil servants play a key role; delivering basic services has a low social prestige;

*Public service:* Civil service plays a key role in service delivery; service delivery is hampered by low capacity, low wages, lack of clarity of rules, dysfunctional institutions with perverse incentive structures and weak transparency;

*Prone to corruption:* High levels of development funding in water service projects make this sector vulnerable to political interference, patronage, misallocation of funds and corruption;

*Power:* Access to water and the control of access to water services is power; officials and agencies in service delivery have high levels of discretion in the allocation of resources, the planning and the implementation of projects;

*Inequality in access:* There are marked disparities in access to water services in terms of quantity, quality and price; there are marked disparities between rural and urban areas as well as within urban areas (e.g. between urban poor and middle class);

*Aid-dependent sector:* Due to the high development costs, water services are dependent on external funding;

*Natural monopolist structure:* Water services are best and cheapest provided as a regional monopoly, since only one network has to be developed, the production can benefit from economies of scale and one provider can ensure water quality in the network;

*Challenges of public financing:* High costs for the development of water service systems require large public investments; public financing requires the coordination of national, local and external funds and predictable and transparent financing procedures;

*Multitude of actors:* A multitude of state and non-state actors is involved in water service delivery at various levels of government and with various roles and responsibilities; this requires good coordination and strong frameworks for interaction;

*Stark differences in urban and rural sub-sectors:* In urban areas, utilities provide water services through networked infrastructure to densely populated areas and the water market is big enough for several providers; in rural areas, district governments or community-owned providers provide water services through stand-alone infrastructure to sparsely populated areas and the water market is too small for several providers.

## **Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

### **Strengths:**

- It does not attempt to reinvent the wheel, but explores in a clear and structured way whether existing country-level political economy approaches could be used for sector-level analysis. It benefits from valuable lessons learned from other existing approaches.
- A clear focus on the water sector deduces sector-specific characteristics, challenges and opportunities for reform. This underlines the importance of identifying and addressing the specific dynamics in specific sectors.
- The study brings together the good governance and accountability perspective on the one hand and the political economy perspective on the other hand.

### **Weaknesses:**

- The study always presents two alternative options for analysis – the Drivers of Change approach and the CAR framework. Unfortunately, the desk study fails to provide an assessment of suitability of alternative options for different purposes. This makes the study very comprehensive and difficult to handle for practitioners.
- The study does not provide a lean and action-oriented synthesis approach for the analysis and management of the specific characteristics of the water sector. For example, the chart on sector governance and political economy analysis in the water sector is highly complex and the matrix with the Drivers of Change questions applied to the water sector are very detailed, taking considerable time to fill in the whole matrix.
- The desk study would greatly benefit from practical experience in different country contexts – either in the form of boxes in the text or in the form of empirical studies. So far, this desk study has not yet led to publicly accessible empirical sector studies.

### **Key references:**

Plummer, J. and Slaymaker, T. (2007) *Rethinking Governance in Water Services*. ODI Working Paper No. 284. London: Overseas Development Institute.

## **3.4 The political economy of policy reforms**

### **Conceptual approach: Why is this approach interesting for sector-level policy analysis?**

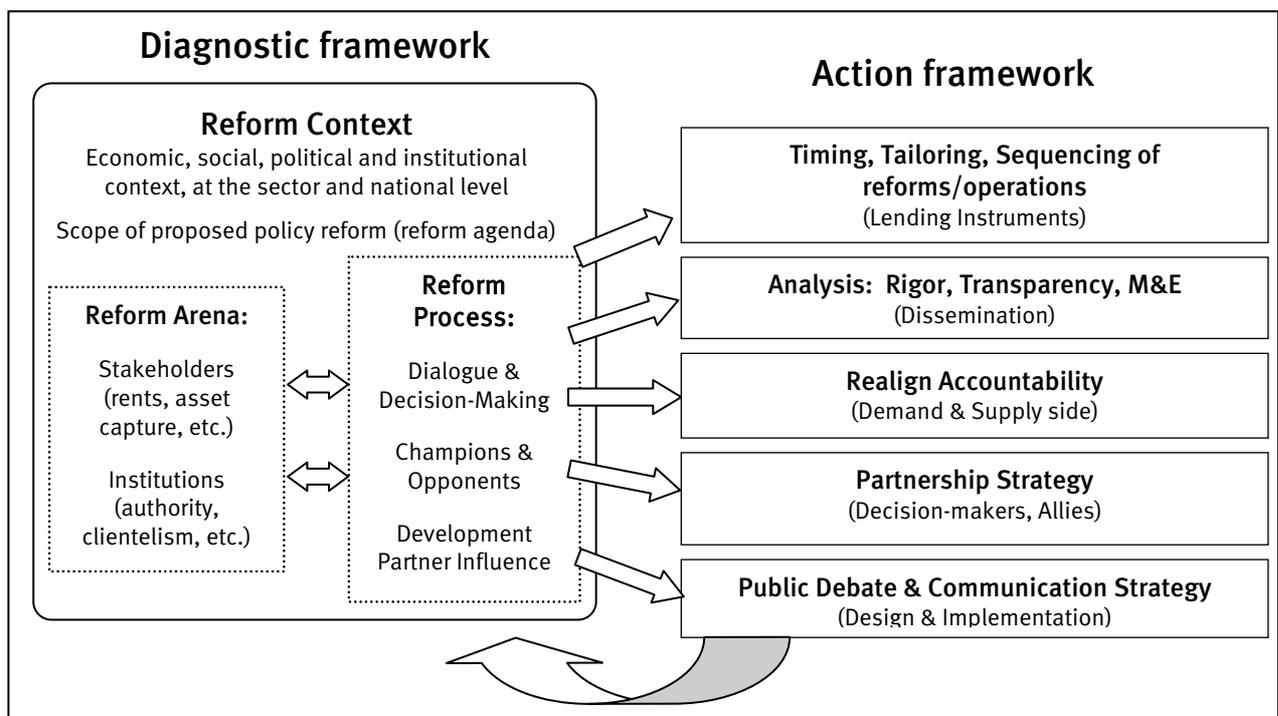
In 2008, the World Bank's Social Development Department published this analytical framework as a more systematic guidance for the Bank's operational teams on managing the political economy of policy reforms. This framework examines 'how actors use their position to protect or strengthen their political and economic interests' (World Bank 2008b:6). The framework has been developed to specifically address the core problem of 'lack of political will' that was diagnosed in many World Bank-funded sector reform support programmes. It also seeks to answer the following related questions: Why do policy reform processes sometimes stall, stop, reverse, or go off track despite their content, design and implementation appearing to be technically sound? What can be done to mitigate this? Why does the reform get tabled? Why do reforms, that were designed to benefit poor and vulnerable groups, fail to achieve this goal? Are some stakeholders deliberately blocking the process because they stand to lose from the reforms, or see opportunities for further benefits if the content is changed? To answer these questions, the framework provides a structure to 'unpack the "black box" of political economy' by studying the stakeholders' interests, incentives, institutions and risks as well as to illustrate 'what works, why and how' for a better understanding and management of political economy issues in reform design and implementation (World Bank 2008b:2).

### Methodology: What are the building blocks, steps and operational implications of the analysis?

The framework comprises two frameworks: one ‘diagnostic’ framework for policy analysis and one ‘action’ framework for policy management (see framework in Figure 3.3 below, World Bank 2008b:9). The ‘diagnostic framework’ provides guidance on how to analyse three aspects of the policy reform process:

1. **Reform context:** analyses the country’s socio-economic, political, cultural and historical characteristics. The context description sets out to take into account the political economy in terms of social and economic inequality, property rights, power relations, social organisation (e.g. kinship systems, ethnic groups, traditional authority), regional disparities, systems of exchange and markets, the state apparatus, and not least the political parties and powers. Moreover, this section should provide information on the country’s development trajectory, its aid architecture, and development community’s history, strengths and weaknesses (see World Bank 2008b:10).

Figure 3.3: The political economy of policy reform framework



Source: World Bank (2008b), slightly modified

2. **Reform arena:** analyses institutions that govern relations and behaviour of the stakeholders with their economic and political interests. The framework distinguishes between institutions and stakeholders, as well as economic and political interests (see World Bank 2008b:10ff):
3. **Reform process:** analyses interactions between stakeholders and their dynamics over time. The framework distinguishes three specific modes of interaction: partnership, participation and leadership (see World Bank 2008b:11ff):

*Partnership:* This mode means that two or more partners agree on their cooperation. There are partnerships among domestic actors, between domestic and external actors as well as among external actors;

*Participation:* This mode can be defined as the ‘process through which stakeholders influence and share control over development initiatives and the decisions and resources which affect them’. Participation is important as it helps bringing together winners and losers as well as different opinions and expertise.

Moreover, it improves the possibilities for successful implementation of reform as well as the legitimacy of the reform. Dialogue and public debate are prerequisites for building coalitions for change and ownership. It helps informing the stakeholders about the rationale for reform as well as the expected risks and opportunities;

*Leadership:* This mode is critical for effectively influencing reform (e.g. for supporting ‘policy champions’ or ‘agents of change’). They commit themselves to the reform agenda, mobilise coalitions to support the reform, deal with the opposition and ‘provide a vision of a more helpful future in order to help citizens to tolerate the transition’. Therefore, it is important to identify the leaders’ interests and their control of their followers.

This diagnostic framework has been applied to a series of case studies on the political economy of sector reforms in the agricultural and the water supply sector. It proposes the following matrix illustrated by the findings of the Albanian water supply reform (see World Bank 2008b:28):

<b>Reform context</b>	Scope of reform discussions	Decentralization and public and private utility management. Political pressure to address urban water sector issues. Implementation of 2002 De-centralization law incomplete and slower than expected.
<b>Reform arena</b>	Institutions	Decentralization expected to bring institutional transformation through changes in incentives and accountability, but will take time & water sector reform is dependent on this.
	Stakeholders	No interests in local Gov’ts to take over utility assets unless they have confidence in the policy environment and future investment (current uncertainty due to incomplete decentralization on roles, investment volumes and timetable of asset transfer). MoPW and Mol each want to keep control over future investment funds. Local gov’ts are reluctant to take over unprofitable or insolvent utilities. Utilities benefit from status quo.
	Economic interests	Reform aversion in Gov’t: central level: no decision yet which ministry will control investment funds after decentralization is implemented; local gov’ts are reluctant to take ownership of utility assets. Utilities have no incentives to reform as they receive operating subsidies from central gov’t.
	Political interests	Some central government entities resist decentralization due to loss of power and decision-making in the water sector. Local governments in cities with public utilities have been conservative on tariff increases because of concerns over public reaction.
<b>Reform process</b>	Dialogue and decision-making	Civil society involved through participation in Social Assessment during project preparation. And can engage directly with utility managers through Consumer Panels. Communication campaigns. Demonstrations against tariff rises without quality improvements in 2003.
	Champions (change agents)	The MOLGD demonstrated strong commitment to pushing through reform. Government will look to scale up elements of this four-city pilot with private utility management to the national level.
	Bank’s influence	Reform included in PRSP; supported by Bank’s Municipal Water and Wastewater Project (2003), and scaled up through DPL (2007). Bank marshalled evidence via a water sector PSIA (linked to MWWP) that supported debate on different sequencing and pacing of reform; is part of analytical underpinnings of DPL (2007).

4. **Operational implications:** The action framework provides a wide range of operational implications (see World Bank 2008b:39ff):

a. Understanding and monitoring the political economy context – implications for action:

- Reflective political economy assessment and comprehensive analytics: Due to the considerable workload and sensitivity of political economy knowledge, it is very difficult to formalise the rich tacit knowledge of World Bank Task Team Leaders regarding political economy issues.
- Staying engaged in dialogue for a flexible partnership with decision-makers, supporters and opponents: A continuous and objective engagement in policy dialogue helps to detect

changing dynamics in the policy environment and build trust and willingness to agree on reform options that are feasible, acceptable and locally owned.

- b. Managing risks by linking more systematic analysis with more effective policy dialogue and communication:
  - Generating and communicating robust and objective evidence: Information, negotiation and dialogue are prerequisites for broad participation and public debate. Communication of evidence-based policies can reduce the risk of ideological capture or resistance to reform.
  - Involving stakeholders in the policy debate and building coalitions for change: Participation, dialogue and building of ‘coalitions of change’ are essential elements that can make or break a policy reform.
  - Building effective, just-in-time monitoring and evaluation systems: M&E feedback is a powerful way of increasing voice and accountability. M&E approaches involve creating new channels of information and spaces to deliberate on that information at the macro, meso and micro levels.
- c. Realigning the ‘Accountability Framework’ for reforms:
  - Organisational reform for downward accountability: Strengthening downward accountability relations between the state and citizens involves an ‘unbundling’ of the various functions of policy making and implementation. Shifts in authority and power have fundamental implications for downward accountability and decision-making in policy reforms.
  - Mobilising and empowering accountability from below through new forms of participation and partnership for reform: State-driven or supply-side reforms for improved accountability and transparency should be complemented by bottom-up or demand-side accountability initiatives from the private sector, civil society and ordinary citizens.
- d. Reflecting on the way the donor community engages in reforms:
  - Tailoring and contextualising reform efforts: Sound analysis of the reform and country context, accompanied by on-going policy dialogue, can help to design and implement operations that are acceptable and tailored to local conditions, constraints and opportunities.
  - Timeframes for doing business: The timing, sequencing and selection of reforms are crucial for successful reforms. In addition, continuous and open engagement in policy dialogue, patience and confidence-building, negotiation and concrete response to concerns and resistance and talking to a broader range of stakeholders are very important.
  - From lender with conditions to facilitator with influence: The World Bank can increase its credibility and influence by gradually shifting towards sustained engagement with clients and development partners to foster reform ownership as catalyst, rather than drive a reform as an outside player through conditionality. Accordingly, the World Bank could reduce lending and shift to a more long-term consensus building approach if this is required by the reform context.

**Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

**Strengths:**

- The analytical building blocks ‘reform context’, ‘reform arena’ and ‘reform process’ together with the political and economic incentives represent a clear and convincing focus of the analysis.
- The case studies on the agricultural and water sector reforms illustrate how the framework could be used in different sector contexts and, at the same time, provide two embedded empirical studies.

- The framework emphasises the importance of operational implications by adding an action framework to the diagnostic framework.

#### **Weaknesses:**

- The framework does not provide theoretical and practical guidance for better understanding and influencing the formal or informal domestic decision making and implementation process. Instead, the sub-analysis on the reform process only focuses on partnership, participation and leadership.
- The action framework does not provide recommendations for strategic and targeted actions. Instead, the operational implications represent more general lessons learned than practical entry points. For example, the framework does not specify how supply-side and demand-side accountability can be strengthened and linked together or how partnership and communication strategies could be designed and implemented in practice.
- The framework has not yet been tested in the field. So far, no stand-alone sector studies, based on this framework, are publicly accessible.

#### **Key references:**

World Bank (2008b) *The Political Economy of Policy Reform: Issues and Implications for Policy Dialogue and Development Operations*. Washington, D.C.: World Bank.

### **3.5 The sector governance analysis framework**

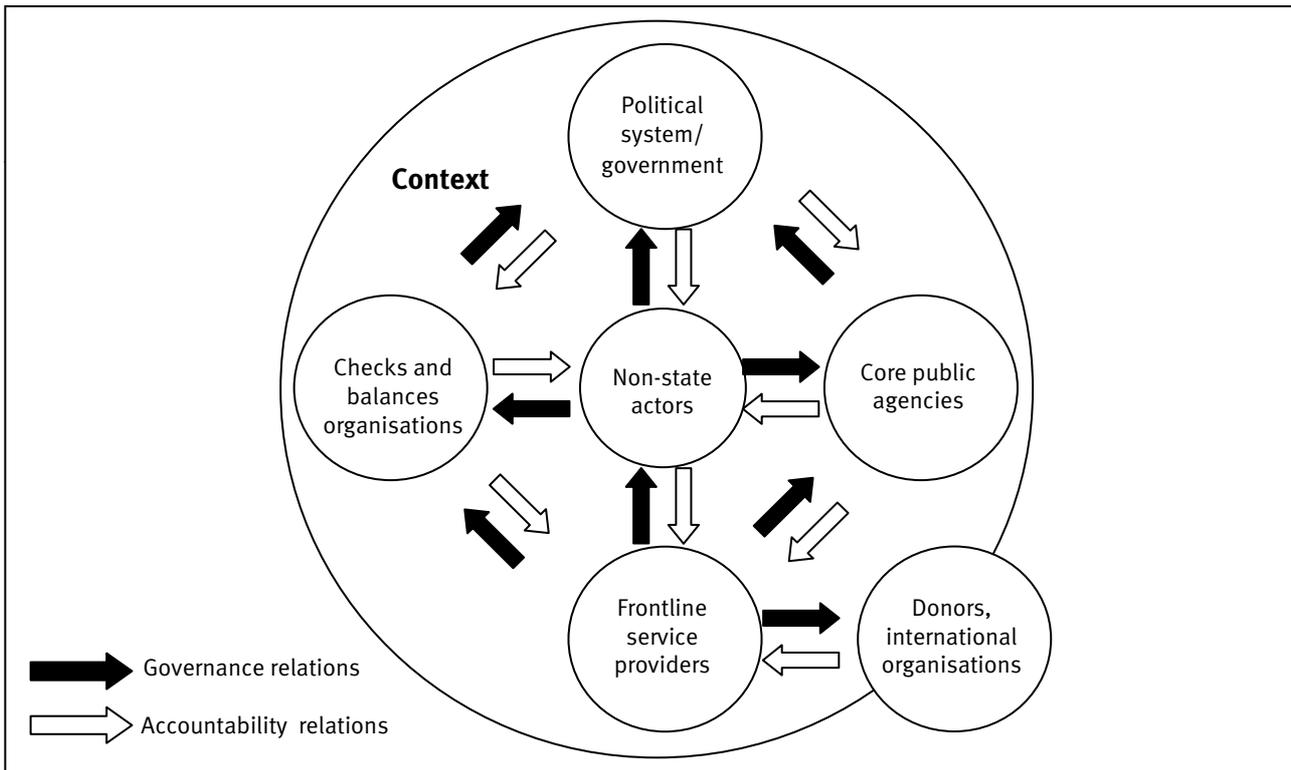
#### **Conceptual approach: Why is this approach interesting for sector-level policy analysis?**

In 2008, the European Commission published the ‘sector governance analysis framework’ to ‘systematically analyse the core governance issues at sector level and in particular how power and politics influence sector performance and results’ (European Commission 2008:6). The framework aims to be pragmatic in its approach by starting from where the sector stands, analysing what the reality is and understanding why it is so. This offers a more promising basis on which to develop a realistic picture of what domestic actors and donors can do to enhance sector governance (see European Commission 2008:15). In order to open a ‘black box’ of domestic political processes, the framework seeks to provide guidance for a systematic analysis of the core governance issues related to formal and informal rules, interests, power and resources (see European Commission 2008:13). ‘In order to understand how a sector functions in the real world it is needed to go beyond legal frameworks, formal institutions and processes in trying to understand the political economy underpinning the functioning of a given sector in terms of rules, interests, resources and power’ (European Commission 2008:15). According to the European Commission (2008:6), a governance analysis is a ‘joint exercise between governance and sector specialists’ and a ‘continuous process given that the conditions that are shaping the particular governance situation in a sector (interests, resources, power, actors etc) are changing.’

#### **Methodology: What are the building blocks, steps and operational implications of the analysis?**

The framework focuses on three core elements of governance in a particular sector: context, actors as well as governance and accountability relations (Figure 3.4, see European Commission 2008:18):

Figure 3.4: Sector governance analysis framework



Source: European Commission (2008)

Guiding principles for the sector governance analysis (see European Commission 2008:17):

Define the purpose of the governance analysis at the outset, since the same process is unlikely to be suitable for several purposes;

Work together with other partners and make the analysis process as inclusive as possible, build on what is there – particularly domestic processes;

Make public more than you think you can, but present them appropriately and differently to different audiences;

Consider the analysis as a continuous process, including monitoring and evaluation, since the governance situation and actors are constantly changing;

Combine sector and governance expertise when doing sector governance analyses.

1. **Analysing the context of sector governance:** draws on many general context analyses which are available from domestic sources (e.g. universities, think tanks, media analysts, NGOs) and donors. The analysis sets out to provide a concise overview of national and international drivers, to recognise existing constraints on governance improvements within the sector, and to identify the 'broader factors that are most relevant for the sector, why and how they are relevant' (European Commission 2008:21). To do so, it analyses the policies, legal and regulatory framework, organisational capacities and the international context. The broader national (and international) governance context sets the stage for how sector governance is configured and how it can develop (European Commission 2008:20):

*Political attention:* The performance in a sector is likely to be influenced by the degree of political attention the sector receives from the legislative and top executive levels.

*Judiciary:* A strong and independent judiciary at national level provides the basis for rule of law in all sectors.

*Civil service:* Changes in civil servants' pay and employment conditions will change the underlying authority and accountability relationships and the incentives to perform.

*Public financial management:* The capacities for public financial management influence governance in all sectors.

*Decentralisation:* The general level of decentralization pursued by the country is likely to influence performance in specific sectors.

- 2. Mapping the actors – their interests, power and incentives:** The purpose of this mapping is to identify organisations and individuals which are main stakeholders in the sector and those presently playing an important role in governance and accountability relations in the sector. Sector governance is believed to be more effective for sector development, when there is both a demand for accountability from non-state actors and 'checks and balance' organisations and an effective supply of governance (see European Commission 2008:22). The framework proposes six clusters of actors. Some of the actors play different roles and, thus, belong to more than one cluster:

*Non-state actors:* Non-state actors are in the centre of the framework, since the state should eventually be controlled and governed by the people and be accountable to the people. Only when citizens have the interest and the power to call the state effectively to account a 'social contract' can be forged between citizens and state. This group includes formal groups (e.g. employers' associations, political parties, media and trade unions) and informal groups (e.g. clans, ethnic groups, families and oligopolies).

*Checks and balance organisations:* Effective checks and balance organisations are essential to curb excessive concentrations of power in the executive branch of government (e.g. Parliament, state auditors, expert appraisal boards, ombudsmen). These organisations typically supervise sector organisations or handle complaints and resolve conflicts. They may be public or certified private bodies.

*The political system/government:* These are the rule-making and top-level executive actors in the public sector at various levels (e.g. Parliament, Cabinet, sector ministers, parliamentary sector commissions, local government officials, municipal councils and village chiefs).

*Core public agencies:* These can include sector ministries and centralised agencies with largely normative and regulatory roles. These agencies are the 'duty bearers' towards the citizens and users and they are located on the 'supply side' of governance.

*Frontline service providers:* These include public and private providers who deliver direct services to users, customers or citizens (e.g. headmasters, nurses, police officers and water pump operators). Depending on the degree of decentralisation, frontline service providers can be hired by national or local governments.

*Donors, regional and international organisations:* International and regional organisations can exercise authority through treaties on the signatories (e.g. World Trade Organisation and African Peer Review Mechanism). Donors can also play an important role in influencing the domestic governance agenda. They can be part of the 'supply side' and of the 'demand side' of governance.

It is important to quickly reduce the list of potentially relevant actors to those actors that really matter: those with the strongest formal or informal say in governance and those with the most important formal or informal accountability obligations. In this selection process, it is important to assess the interests, power and incentives of the various actors. The following matrix helps to identify the key actors, their interests, power and incentives (European Commission 2008:49):

Key governance actors and stakeholders	Role and importance for actual governance/ accountability	Interests pursued	Power and resources for influencing	Key formal and informal linkages	Incentives
<b>Non-public sector:</b> 1, 2, 3, etc	...	...	...	...	...
<b>Political system:</b> 1,2,3, etc	...	...	...	...	...
<b>Core public agency:</b> 1,2,3, etc	...	...	...	...	...
<b>Frontline service providers:</b> 1,2,3, etc	...	...	...	...	...
<b>Checks and balances:</b> 1,2,3, etc	...	...	...	...	...
<b>Development agencies and external actors:</b> 1,2,3, etc	...	...	...	...	...

3. **Analysing governance and accountability relations:** This step helps to analyse the governance and accountability relations between key actors in sector governance. When looking at governance relations, the first task is to analyse the ‘mix’ of governance mechanisms that determine the functioning of a sector. The aim is not to pass judgement, but ‘simply to describe and understand how the sector is actually governed’ (European Commission 2008:25). The framework identifies four governance mechanisms through which authority and power can be exercised, following different rules of the game:

*Governance by hierarchy:* This governance mechanism is formal. The superior has a formalised right to issue orders and command a level of obedience. Subordinates are highly dependent upon decisions taken at the top level.

*Patrimonial governance:* This governance mechanism is informal. Loyalty and support to the ‘patron’ in exchange for protection, resources and/or position binds the ‘client’ to the patron and makes him/her dependent on the patron.

*Market governance:* This governance mechanism is formal. The famous ‘invisible hand’ where competition and the forces of supply and demand compel independent market participants to adapt their performance – or vanish.

*Voluntary network governance:* This governance mechanism is informal. It can be found among independent actors when there is no apex authority, no market and no patron establishing order. Relations are therefore predominantly based on trust and mutual recognition.

Beside the governance mechanisms, there are other issues that could help to analyse the governance and accountability relations between the key actors in the sector (European Commission 2008:25f):

*Information about and clarity of governance:* Are the ‘rules of the game’ in the sector fairly clear, comprehensive and available, and do the actors know them? Is it clear when, how and by whom decisions are taken, and are the remits for decision-making for different actors fairly well defined?

*Responsiveness of governance:* Are actors subject to fairly predictable central guidance in line with formal policies, or is decision-making more arbitrary, discretionary and ad hoc? Is the sector governance in line with governance principles or cross-cutting governance clusters (e.g. decentralisation and participation of civil society)?

*Accountability set-up and responsibility:* What are the mechanisms, if any, through which people entrusted with power are kept under check so that they do not abuse that power – and to what extent do they carry out their duties? Do accountability patterns have any impact on the behaviour of duty holders?

*Capacity for governance and accountability:* Are resources and capacity available in terms of quantity, quality and timeliness to enable actors to follow governance directives and to meet accountability obligations? Are resource flows and management transparent?

4. **Summing up – Analysing governance reform readiness in the sector:** In a final step, the previous three steps can be brought together in a summary matrix, which presents key features shaping and describing existing governance relations in the sector and key strengths, opportunities, weaknesses and threats for change in governance and accountability on the demand and supply sides, respectively. This matrix does not add new information, but synthesises detailed information from previous steps to provide an overview of the key features, the major trends and the overall readiness – or resistance – to enhancing governance (EC 2008:26). The framework provides the following matrix:

	Key features	Key strengths/ opportunities	Key weaknesses/ threats	Major trends
<b>Context beyond the sector</b>	...	...	...	...
<b>Actors, interests and incentives</b>	...	...	...	...
<b>Governance/ accountability relations</b>	...	...	...	...
<b>Other aspects</b>	...	...	...	...

5. **Operational guidelines** (European Commission 2008:29ff):
- Act strategically to strengthen domestic governance:* EC staff is invited to refrain from adopting normative approaches or exercising hands-on control when supporting governance reforms. Instead, they should focus on and support the domestic governance system and actors in the sector (including parliament, political parties, parents, frontline providers and other stakeholders). Reforming sector governance is a long term step-by-step process. The framework suggests the following examples for strategic action.
  - Focus on ‘basics first’ in sector governance:* Governance changes take time and evidence shows that ‘leapfrog’ improvements from weakly performing systems to the most advanced approaches, usually do not work. Therefore, donors should look for multiple small, practical steps which are informed by a strategic view of how to accelerate ongoing processes of change.
  - Promote governance principles in sector operations:* The governance principles, participation, inclusion, transparency and accountability need to be promoted in sector operations in ways that fit the country context while taking sector specifics into account.

In addition, the framework suggests the following concrete actions and entry points for promoting sector governance. All of these actions are described against the background of the European Commission’s project cycle (see European Commission 2008:33f):

*Actions that strengthen the supply side for improving governance:* Pay careful attention to ownership issues; Carefully consider capacity constraints and the longer term requirements for meaningful capacity development; Encourage donor harmonization and alignment; Strengthen domestic ownership of the Paris Agenda and the Accra Agenda for Action (and their implementation); Practice what you preach – enhance mutual accountability; Promote private partnerships and market governance mechanisms when appropriate; Strengthen the government’s sector and national monitoring capacities.

*Actions that strengthen the demand for improving sector governance:* Expanding the space for a domestic dialogue on sector governance; Enabling targeted sector groups such as end-users as well as service providers ‘on the ground’; Supporting the establishment or effective functioning of complaint and redress mechanisms; Providing strategic support to watchdog agencies; Engaging with ‘political society’.

*Actions that deal with governance constraints outside a particular sector:* Ensure linkages with core cross-sector support programmes; Ensure the necessary linkages between sector support and ongoing decentralisation processes; Bring sector governance issues to the national policy and political dialogue.

**Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

**Strengths:**

- It is based on the European Commission’s policies, evaluation reports and standard procedures.
- It follows a strategic, pragmatic and incremental approach based on theoretical findings and empirical evidence. The matrices seek to be as lean and focused as possible, such as the stakeholder matrix. The annex provides further information on the conceptual approach, ready-to-use matrices, reference to other governance assessments and a detailed case study on the road sector. In addition, the framework provides many informative boxes on experiences in different country and sector contexts, ready-to-use matrices and guiding questions.
- The framework provides concrete operational implications in line with the European Commission’s standard procedures. That is the proposed actions are described according to the European Commission’s project cycle so that European Commission staff can directly apply this framework in their programming decisions.

**Weaknesses:**

- The ‘reform readiness’ matrix represents a summary of the previous analyses rather than a snapshot diagnostic to determine the necessity or feasibility of reforms. It is not clear who assesses when a sector is ready for reform, and on what grounds. Additional information on political support, public opinion and domestic capacity for the implementation of reforms might help to assess reform readiness.
- The framework has not yet been tested in the field, and as such, no stand-alone sector studies, based on this framework, are publicly accessible.

**Key references:**

European Commission (2008) *Analysing and Addressing Governance in Sector Operations*. Tools and Methods Series. Reference Document No. 4.

### **3.6 The policy engagement framework**

**Conceptual approach: Why is this approach interesting for sector-level policy analysis?**

This ‘policy engagement framework’ is currently being developed within the ODI. It aims to understand how the design and implementation of policies can be improved so that they are more likely to be successful under given political circumstances. The framework sets out to analyse the political dimensions of policy change. This includes the policy content (the ‘what’), conditions for policymaking (the ‘why’) and strategies for policy implementation (the ‘how’). The framework takes the stance that policy change depends on the dynamics between the political ‘stakeholders’, the ‘context’ in which a policy is made and the policy ‘processes’ through which the policies are made. The framework addresses all three areas, but focuses on the stakeholders and their power, assets, interests, positions, commitment and connections. The framework divides the policymaking process into four distinct phases: agenda setting, policy formulation, policy implementation and policy evaluation.

**Methodology: What are the building blocks, steps and operational implications of the analysis?**

**Policy context:** The ‘policy context’ is characterised by a set of country- and sector-specific factors (e.g. political, economic and social factors at global, national and sub-national levels). Based on Leichter (1979), the framework proposes the following categories:

*Situational factors or temporary factors:* These ‘focusing events’ can include currently ‘hot issues’, recently released data related to the policy, sensational news, a new administration is taking office, the visit of a celebrity champion of the reform, a technological breakthrough, a natural disaster (e.g. an earthquake may provide an occasion to place improved regulation on construction).

*Structural factors or relatively stable factors:* These are relative stable factors in a society, which determine the direction, pace and extent of policy change (e.g. political system, structure of the economy and distribution of income, demographics, available technology and power balance between actors).

*Cultural factors:* These factors include formal hierarchies, the role of age, the perception of the role of the state and non-state actors, the role of informal and formal institutions (e.g. trust or treaties) or appreciation of different types of incentives.

*Exogenous or international factors:* These factors impact on the national policy making process and national policies (e.g. policies in neighbouring countries, international policies, cross-border flows of people, ideas, funds and goods as well as cross-border cooperation or conflict).

**Policy process:** The ‘policy process’ is the manner in which policies are initiated, formulated, negotiated, adopted, communicated, implemented and evaluated. The framework distinguishes four distinct stages:

*Agenda setting:* According to Kingdon (1984), the political agenda is all politicians care about. Therefore, it is critical to understand the circumstances under which issues make it on the political agenda. He distinguishes three key factors: problem definition (i.e. the problem is widely recognised), policy (i.e. there are financially and technically feasible policy alternatives for this problem) and politics (i.e. politicians have an interest in solving the problem).

*Policy adoption:* The framework does not provide analytical tools for this phase.

*Policy implementation:* According to Hill & Hupe (2002), seven factors impact on policy implementation: the policy characteristics (e.g. content and technical feasibility); the nature of the policy formulation process (e.g. do politicians focus on how the policy can be implemented and how opposition to reform can be minimised?); the number of actors involved in the implementation (e.g. number of administrative tiers responsible for implementation); the position of implementing actors (e.g. do front-line staff understand and support the new policy?); the interaction between multiple responsible actors involved in implementation (e.g. the relationships between parallel organisations or formal and informal organisations); the influence of affected groups on the policy process (e.g. fierce opposition) and wider environmental factors (e.g. situational, structural, cultural and exogenous factors).

*Policy evaluation:* The framework proposes to analyse whether the policy was effective (i.e. did it meet the stated objectives?), whether it was efficient (i.e. was the ratio between costs and benefits appropriate?) and whether there are mechanisms to ensure that lessons learnt are being fed back into policy processes (i.e. to inform politicians on whether or not to continue the policy, modify the policy, change the implementation strategy or drop the policy).

The framework proposes a detailed 9-steps process to analyse political dimensions of policy change, with a focus on the stakeholders. The steps are illustrated using sector examples of child labour and congenital syphilis and the framework also provides ready-to-use worksheets:

1. **Specify ‘policy content’:** This step provides guidance on the analysis of policy content and the ‘framing’ of policies. The consequences of policy changes and popular support to these policies depend on their content. Therefore, it is critical to analyse the objectives, strategies, costs and alternative policy contents as well as the ‘framing’ of the policies. The policy frame can refer to the nature and magnitude of the problem, the values underpinning the policy, its contribution to wider social goals and the scientific evidence it is based upon. This framing is critical since it can build a consensus for reform, reduce opposition and can provide a favourable perception of a policy from the very beginning. Buse et al. (forthcoming) describe the following points as important for well framed policies:

<ul style="list-style-type: none"> <li>• Clear goal and few objectives;</li> <li>• Seeks incremental change;</li> <li>• Responds quickly to problem;</li> <li>• Speaks to commonly held values;</li> <li>• Is easy to explain;</li> <li>• Is based on sound knowledge;</li> <li>• Has simple technical features (technology and know-how);</li> <li>• Requires few additional funds;</li> <li>• Uses simple indicators and relies on existing indicators;</li> <li>• Implemented by one or a small number of organisations.</li> </ul>
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2. **Identify ‘policy consequences’:** This step provides guidance to analyse the impacts the proposed policy or policy change will have on the country, the sector and specific groups. The framework proposes the following matrix to identify the most important effects:

<b>Dimension</b>	<b>Size (magnitude or scale of consequences)</b>	<b>Nature (precise nature of consequences)</b>	<b>Intensity (widely distributed or narrowly concentrated consequences)</b>	<b>Timing (when will consequences occur, how long will they endure)</b>
<b>Financial effects</b>	...	...	...	...
<b>Administrative effects</b>	...	...	...	...
<b>Geographic effects</b>	...	...	...	...
<b>Symbolic effects</b>	...	...	...	...

3. **Identify ‘stakeholders’:** This step provides guidance on how to identify the stakeholders – those groups likely to affect policy making processes (agenda setting, policy formulation, policy implementation and policy evaluation) or to be affected by processes and hold a ‘stake’ in its outcome. The number of stakeholders should range between 10 and 20 to ensure both a sufficient range of positions and sufficient information for each position. The framework provides the following categories of stakeholders: decision-makers and implementing agencies (e.g. legislators, national and local government officials); adversely effected groups; intended beneficiaries and other groups (e.g. interest groups, CSOs, researchers and donors).
4. **Assess stakeholder ‘power’:** This step demonstrates how to analyse the power of various stakeholders. Power is defined as the ability of stakeholders to influence political decision-making process and policies according to their interests. Power can be measured as the access to or control of specific assets. These assets can be distinguished into ‘tangible assets’ (financial resources, personal resources, infrastructure, hierarchical positioning, political support and information) and ‘intangible assets’ (legitimacy, expertise in policymaking, charisma, age, trust and knowledge). The framework proposes the following matrix to analyse power of stakeholders – illustrated with information on a proposed health sector reform:

Stakeholder	Tangible assets	Intangible assets	Power
Pregnant women	Not organised as an interest group	Little knowledge of risks and benefits	Low
Nurses	Organised group, involved in the implementation of the policy		Medium (sufficient power to derail the process)
Physicians	Well-organised professional associations, involved in policy implementation, access to political elite	Knowledge, social prestige	High

5. **Identify stakeholder ‘interests’:** This step presents how to analyse whether stakeholders are likely to use their assets to influence policy making processes. Stakeholders will only make use of their assets, when policy or policy change is expected to affect their interests. These interests can be defined as individual or collective (monetary or non-monetary) costs and benefits. For example, a reform seeking to contract out public health services to private physicians is likely to face opposition from public physicians and they might not see new jobs in the private health sector as a valid compensation for their feared losses. The framework proposes the following matrix to analyse stated and concealed interests of stakeholders:

Stakeholder	Stated interests	Concealed interests
Public physicians	Oppose reform to protect high quality of health care system	Oppose reform to protect their jobs, privileges, social prestige and additional income from extra-clinical treatment
...	...	...

6. **Assess stakeholder positions:** This stage aims to analyse stakeholders’ position vis-à-vis proposed policy or policy change. Stakeholders can be supportive, neutral or opposed depending on their perception of the future distribution of costs and benefits as well as their values and beliefs. Both support and opposition can be further distinguished into strong and weak, depending on the power of the stakeholders. For example, urban poor can show their strong opposition to policies in violent street riots. The positions can be publicly voiced (e.g. statements, policy briefings, interviews) or concealed (e.g. ask allies). For example, a minister may publicly support a policy to win votes, but may internally be actively working against it.
7. **Assess stakeholders’ commitment to positions:** This step assesses stakeholders’ commitment to a specific position. The commitment shows how important this issue is to stakeholders (e.g. number one priority) and whether their position can easily be changed or not. The framework proposes the following matrix to analyse various commitments of stakeholders:

Stakeholder	Position	Commitment to position
Minister	Publicly supportive, but privately opposed	Medium
...	...	...

8. **Create position maps of stakeholders:** This step guides on users on mapping out stakeholders. These matrices can be used to assess alternative policy options and to analyse changing stakeholder positions over time. The framework proposes the following matrix to identify potential coalition partners or powerful opposition groups:

Influence	Position		
	Opposed	Neutral	Supportive
High	...	...	...
Medium	...	...	...
Low	...	...	...

9. **Identify networks and situate stakeholders within them:** This step aims to identify stakeholder networks and situates the stakeholders within them. ‘Networks’ refer to interactions between different stakeholders. A network consists of ‘nodes’ and ‘links’, where stakeholders are nodes and interactions as links. Networks can be distinguished into formal and informal networks as well as ‘policy communities’ (e.g. debt relief prepared by IFIs and donors) and ‘issue networks’ (e.g. Jubilee 2000 and Drop the Debt). Policy changes occur when policy communities change, issue networks change or when these networks collaborate. The framework provides the following categories to analyse networks:

<p>What flows among the nodes (e.g. information, funds, advice, direction);</p> <p>Direction of the flows (e.g. reciprocity);</p> <p>Formal or informal flows;</p> <p>Intensity of exchange (strengths of the band);</p> <p>Durability of the connections (e.g. short-term or long-term alliance);</p> <p>Density (extent to which all members are connected to one another).</p>
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**Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

**Strengths:**

- The analytical framework is well-grounded in academic literature and illustrated with sector-specific experiences from health and labour market reforms.
- It helps to better understand the policy process by dividing domestic decision making and implementation processes into distinct stages of the policy cycle.
- The framework provides guidance on how to improve the feasibility of policies through well-framed policies and active political communication.

**Weaknesses:**

- It provides very comprehensive and detailed matrices for actor analysis, but does not provide the theoretical and practical guidance needed to identify actors that are relevant enough to be analysed.
- The framework does not provide concrete operational implications.
- The framework has not yet been tested in the field. So far, no stand-alone sector studies are publicly accessible that are based on this framework.

**Key references:**

Buse, K. with Hawkes, S. and Jones, N. (forthcoming) *Understanding the Political Dimensions of Policy Change*. RAPID How To Guide. Overseas Development Institute. Draft December 2007.

### **3.7 The political economy and political risks of institutional reform in the water sector**

**Conceptual approach: Why is this approach interesting for sector-level policy analysis?**

In 1998, the study *‘The political economy and political risks of institutional reform in the water sector’* was published as a World Bank Policy Research Paper. The study aims to estimate the ‘political risk’ associated with implementing a series of institutional reforms at the sector level. This is important,

because institutional reforms always follow changing power and distribution patterns, which in turn result in political opposition to the proposed reforms. All interest groups (i.e. societal groups interested in the outcome of a policy or policy change) seek to influence political decision-making processes so that the outcome best serves their interests. Hence, powerful interest groups can slow down, divert or even stop a desirable reform. Consequently, it is necessary to analyse the level of political risk associated with the formulation and implementation of institutional reforms. To be able to assess these political risks, it is necessary to find out who is affected by the reform ('interest groups'), what their 'interests' are and how they can 'influence' the reform process.

### **Methodology: What are the building blocks, steps and operational implications of the analysis?**

The framework was tested by applying it to a World Bank-funded project on institutional reforms in Pakistan's irrigation sector. This short introduction only refers to one of the several reforms ('Transformation of federal irrigation department into decentralised provincial irrigation departments') and only to one component of this reform ('Cost reduction'). The framework distinguishes the following composition and sequence of analyses and sub-analyses:

#### **1. Analysis of the political context:**

- a. *Very brief general analysis of the sector:* 'The agrarian economy in Pakistan'.
- b. *Brief general analysis of the sub-sector:* 'The irrigation sector in Pakistan'.
- c. *Analysis of the problems in the sub-sector:* 'The present status'.
- d. *Analysis of proposed policy content:* 'The proposed policy or policy change'.

#### **2. Analysis of the political risks associated with the political actors:**

- a. *Analysis of interest groups:* This analysis seeks to find out which interest groups may play a role in the process (e.g. feudal landlords and irrigation bureaucrats). To reflect the internal dynamics within interest groups, the framework recommends breaking down larger (heterogeneous) interest groups into (more homogeneous) sub-groups with differing interests (e.g. reformers and reform-opponents in national ministry of water or small farmers and big farmers).
- b. *Analysis of interest groups' interest in influencing policy processes:* to find out which groups are interested in the reform's outcome and may be willing to influence the reform process. To do so, it starts with finding out who is benefiting or suffering from the status quo and who would be benefiting or suffering from proposed policy changes (i.e. identify potential 'winners' and 'losers'). 'Losers' of reforms tend to be more vocal and interested in reforms than 'winners' (e.g. landlords and irrigation bureaucrats in Pakistan are highly interested in blocking reform, since they benefit from the status quo and perceive reform as a threat to their political power, authority and rent-seeking opportunities). The following matrix can be used for the analysis:

<b>Reform</b>	<b>Present situation</b>	<b>Potential winner</b>	<b>Perceived loser</b>
Component 'Cost reduction'	Federal irrigation department: fully funded by state, no transparent accounts, no rules for water allocation	Provincial finance departments: savings through reduction in subsidies Federal government: savings through reducing in subsidies and debt burden Small farmers: reduced costs	Federal irrigation department: more accountability, hard budget constraint, financial scrutiny, reduce staffing Landlords and big farmers: higher price for water

- c. *Analysis of interest groups' cost of influencing policy processes:* to calculate whether interest groups can afford to influence policy processes. There are different types of costs (e.g. time, effort and funds needed to influence reforms or political costs associated with implementing policies), different interest groups face specific costs (e.g. small farmers have particularly high costs involved in organising them as an influential interest group) and distribution of these costs changes over time (e.g. short-, medium- and long-term costs).

- d. *Analysis of interest groups' influence on policy processes*: to find out whether interest groups are able to influence reform processes (e.g. in Pakistan, the landlords opposing reform dispose of strong political influence, considerable financial resources and high social prestige).
- e. *Analysis of interest groups' strategies and activities to influence the policy reform process*: to discover how interest groups may influence reform processes (e.g. meeting with policy makers, conducting studies that support the interest group's point of view, financial contributions to political campaigns, public opinion campaigns, direct participation in government by members of interest groups, bribes, protests, strikes and riots). Each interest group uses a specific set of means and activities based on their relative costs and effectiveness (e.g. in Pakistan, the landlords and irrigation bureaucrats were spreading misinformation, organising political opposition and causing bureaucratic delays). The study proposes the following matrix – illustrated with information on the irrigation sector reform in Pakistan):

Interest group in reform process	Means by which interest groups influence reform achievement levels
Federal government	Promoting interest groups in favour of reform, inviting donors to fund pilot projects, political communication
Small farmers	Passive actors due to lack of organisation, understanding of issue and means to influence the reform

### 3. Analysis of political risks associated with specific reforms:

- a. *Delineation of different sub-reforms or components of reform*: to break reforms down into components. Thus, the political risk of the individual components can be calculated (e.g. the risk of transforming the national irrigation department into decentralised provincial irrigation departments or the risk of establishing local Farmers' Organisations).
- b. *Delphi process*: to provide missing information on, and perceptions of political risks associated with, a proposed reform. The study asked a panel of 12 experts from development finance agencies sponsoring the project and from other international agencies familiar with the water and drainage sectors in Pakistan. No experts from any of the interest groups associated with the reforms were part of the panel. Each of the panellists was asked to assign a range of probabilities to each of three possible reform achievement levels, based on the scales of achievement and a defined set of likelihood values. The following matrix shows the final Delphi probability values of reforms' achievement levels (see Dinar et al. 1998:20f):

Reform	1	2	3	4	5
Low achievement	1.3	1.4	1.4	2.4	1.6
Medium achievement	2.9	2.4	2.9	2.0	2.4
High achievement	1.6	1.6	2.1	1.1	1.6

Note: Probability values are 1=0-25%, 2=25-50%, 3=50-75%, 4=75-100%.

The results of the above political risk assessment suggest that:

- Reform 1 (Transformation of Provincial Irrigation Departments into autonomous Provincial Irrigation and Drainage Authorities and Area Water Boards) has high chances for medium achievement levels.
- Reform 2 (Transfer of responsibilities for management of the systems at the minor and distributary level and small drains to Farmer Organisations) has high chances for medium achievement levels.
- Reform 3 (Performance contracts awarded to the private sector for carrying out operation and maintenance of irrigation and drainage infrastructure) has high chances for medium and high achievement levels.

- Reform 4 (Establishment of water rights and formation of water market) has high chances for low and medium achievement levels.
- Reform 5 (Defining the operational jurisdictions of various institutions in the water sector) has high chances for medium achievement levels.

4. **Risk mitigation and management:** The study proposes the following risk mitigation management strategy (see Dinar et al. 1998:23):

- Continue to encourage political debate about irrigation policy in Pakistan, and thereby help build both conscious top-level political ownership and widespread support among various stakeholders for the reform program.
- Strengthen the constituency for reforms through extensive technical assistance, communication and beneficiary participation programs.
- Establish institutional focal points in the Federal Government, federal Water and Power Development Authority, and Provincial Governments and provide technical assistance to create the necessary incentives and mandates, and equip them with the resources/capacity to function as agents for institutional change.

#### **Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

##### **Strengths:**

- The study is very convincing due to the detailed information on a specific set of irrigation sector reforms in Pakistan.
- It has a clear focus on the analysis and management of political risks associated with the implementation of institutional reforms. The Delphi method provides an interesting way to calculate the probability of different achievement levels of different reforms.
- Based on these calculations, the study helps to design and implement appropriate risk mitigation and management strategies. For example, mitigation strategies can seek to implement reform components with the highest probability of high achievement first to build trust and popular support for consecutive reform components.

##### **Weaknesses:**

- The study starts off with technically sound reforms and then seeks to find out whether these reforms can be implemented under the given political conditions. In doing so, the study focuses on those groups that could derail proposed reforms during implementation rather than taking into account the overall domestic policy making and implementation process.
- The Delphi method needs to be taken forward. On the one hand, the presentation of the Delphi method is sometimes unclear due to changing values for achievement levels. On the other hand, the participation of domestic experts and members from interest groups in the expert panel might help to take into account the perception of the domestic actors involved.
- The framework has not yet been tested in other country and sector contexts.

##### **Key references:**

Dinar, A.; T. Balakrishnan and Wambia, J. (1998) *Political Economy and Political Risks of Institutional Reform in the Water Sector*. World Bank Policy Research Working Paper No. 1987. Washington, D.C.: World Bank.

### 3.8 Water pricing in Honduras: A political economy analysis

#### Conceptual approach: Why is this approach interesting for sector-level policy analysis?

This analysis looks at a specific problem in a sub-sector (water pricing reform) from a political economy perspective. The analysis centres on the identified key problem of the water supply sector in the capital of Honduras: the water tariff covers only 20% of the long-run marginal cost of supplying water. In a first step, the analysis identifies various (mainly negative) distributional and allocational consequences of low water tariffs and their effects on overall water management in Honduras. In a second step, the analysis identifies stakeholders interested in maintaining or changing the existing water pricing regime.

#### Methodology: What are the building blocks, steps and operational implications of the analysis?

The analysis comprises the following distinct sub-analyses:

1. **Introduction:** A general overview of the water sector in Honduras.
2. **Assessment of the current water supply and demand situation in Tegucigalpa:** A general sub-sector analysis comprising of an introduction, water supply situation, water demand situation and market clearing water prices in the capital between 1997 and 2010.
3. **Implications of low water prices in Tegucigalpa:** An in-depth analysis of the key sector problem introducing and discussing the water utility's administration of the capital's water system; historical water prices in the capital; political and economic consequences of low water prices; consequences for local water supply in the capital; consequences for private agent behaviour; other overall economic and social consequences; and some further favourable effects of low water prices.
4. **Equilibrium water prices and service in a political economy perspective:** Political economy analysis comprising of an analysis of the stakeholder's incentives (see matrix) and possible actions required for water pricing reform. The stakeholder analysis focuses on stakeholders that influence the water pricing reform. To do so, it starts off with the government's pricing board (responsible for setting the water price) and analyses the board's incentives to keep water prices low (e.g. board members are political appointees of the government) and then goes on to analyse those stakeholders who directly or indirectly influence the board's decisions (e.g. their interests and their influence on the board).

Matrix: Stakeholder analysis of incentives to promote or block water pricing reform in Tegucigalpa (based on Strand 1998:29ff and Walker et al. 1997):

Actor/group	Interest in issue (incentive)	Current position	Resources available
<b>Internal political and administrative actors</b>			
Members of pricing board	As political appointees of the government, they have no interest in raising the water tariff as long as the government has no interest in increased water tariffs	Tend to be against pricing reform, but wait for government decision	Make the decisions, close contact to government
Government	No interest in higher water tariffs, since the voters (esp. urban middle class) do not want higher tariffs	Officially, the government argues that water is a basic necessity and should be provided at an affordable cost (even though this harms the poor without access to supply networks and subsidises the urban middle class)	Has the executive powers and could allocate the needed funds for subsidies
President	Responsible for relationship with banks and domestic issues	No apparent interest in issue	Executive power, but cannot directly block Congress decisions

<b>Actor/group</b>	<b>Interest in issue (incentive)</b>	<b>Current position</b>	<b>Resources available</b>
Ministry of Finance	Interest in balance of payments improvements and efficient infrastructure	Leaning toward support	Ability to influence president; can stop to accept the deficits of public water utility
<b>Other domestic actors</b>			
Municipality	May take over administration from water utility	Disinterested	Lobbying power, could block reform
Water utility	Interest in remaining in power of water administration; no interest in extending the supply network to new customers, since it has to pay all the network extension costs in the far and risky neighbourhoods of the urban poor (no government subsidies for new connections); low water tariff provides little incentive to meter consumption, collect water bills and to prosecute illegal connections	Strong opposition to general reform, favour price increases	Technical and informational capacity, tacit support from government
Union of water utility employees	May lose jobs, corruption possibilities	Strong opposition	Lobbying power
Served urban middle class	May face higher water prices, but improved service	No clear public opinion, but scepticism	Political/voting power
Unserved urban poor	Potentially strong interest in reform, since they are now paying 10-15% of their household income for a bad and unreliable service (and would probably prefer paying 3-5% for a reliable and safe water supply)	No collective position	No power
<b>External actors</b>			
World Bank	Strong interest in raising water tariff to increase the available resources for O&M, improve service quality and network extension to unserved neighbourhoods, to reduce the waste of water and to increase the value of the nearby nature reserve as a water catchment area that needs to be protected from deforestation	Strong support	Basic loan financing, USD 30 million funding

**Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

**Strengths:**

- The study is convincing as it has a focused and problem-centred approach to water pricing reform in Honduras. It enables the study to elaborate on the performance, challenges, incentives and actors related to this core problem.
- The study applies a problem-centred actor analysis by starting off with identifying members of the pricing board responsible for tariff setting and then figuring out who influences their decisions. The stakeholder matrix is very useful to get a structured overview of the stakeholders' incentives for

getting involved in reform, their positions vis-à-vis reform and the resources they can use to influence the policy process.

#### Weaknesses:

- The narrow focus on water pricing could hinder to identify important entry points outside this specific sub-sector. A broader focus on the water supply sector might be necessary to identify alternative entry points and relevant actors influencing water pricing from outside the sub-sector.
- The study also fails to provide concrete operational implications.
- It is more of a study with a theoretical background than an applicable analytical framework. So far, this study has not been replicated in other country or sector contexts.

#### Key references:

Strand, J. (2000) 'A Political Economy Analysis of Water Pricing in Honduras's Capital, Tegucigalpa', in: Dinar, A. (ed.) (2000) *The Political Economy of Water Pricing Reform*. New York: Oxford University Press.

### 3.9 Drivers for change in Zambian agriculture

#### Conceptual approach: Why is this approach interesting for sector-level policy analysis?

In 2002, DFID commissioned Farrington & Saasa to write the study 'Drivers for change in Zambian agriculture'. This study builds on the first so-called Drivers of Change study conducted in Bangladesh in 2002. At that point in time, DFID's Drivers of Change approach had not yet developed a framework that could be applied to the analysis of Zambian agriculture. Therefore, the study applied some of the lessons learned from country-level Drivers of Change study in Bangladesh to the Zambian agriculture sector. The design of the sector-level Drivers for Change study centres on policy environments, policy making processes in the agricultural sector and main political actors.

#### Methodology: What are the building blocks, steps and operational implications of the analysis?

##### 1. Analysis of the policy making context and process:

- a. *Analysis of the policy context*: briefly introduces general lines of economic policy and sector specific policy framework:

*Economic environment*: the policy choices in the agricultural sector are highly determined by the country's economic conditions (i.e. the degree to which they have conditioned the policy makers' room for manoeuvre). In addition, agricultural policy has always been strongly influenced by the overall economic policy (i.e. the changes of nationalisation and liberalisation of the Zambian economy);

*Agricultural policy*: liberalisation, privatisation, crop diversification and changed trade arrangements are expected to increase the incentives for private farmers to increase output.

- b. *Analysis of the policy making process*: describes the political decision making process, the capacities of the state and non-state actors and their influence on the decision making process:

*The state*: characterised by weak political institutions, administrative capacities and democratic representation. This gives the impression of a 'disorganised' and ineffective state;

*Civil society*: well integrated and includes powerful actors (e.g. trade union movements and the church) that spearheaded the successful 'Anti-Third Term' campaign against President Chiluba's third term.

- c. *Analysis of the roles and relationships*: describes formal roles of different state and non-state actors and their relationship towards each other (e.g. the separation of powers was only

introduced in 1991, the role of Parliament is still changing and the opposition has increased the number of seats to about 50%);

- d. *Analysis of interest groups*: describes, to various degrees, the groups' homogeneity/level of organisation, political position, room for manoeuvre and influence on the decision making process:

*Trade unions*: in favour of multipartyism, very powerful, represents 75% of formally employed workers;

*Business groupings*: different positions depending on their predominant economic activity, fragmented into numerous small organisations;

*Churches*: very influential when all main Christian denominations work together, brought warring political forces towards an agreement of multi-party system in Cathedral meeting, spearheaded the Anti-Third-Term movement;

*NGOs and traditional authorities*: growing number of NGOs, but limited capacities, traditional authorities not involved in political decision making;

*The media*: liberalisation of the media sector has opened up space for private activity, 5 private radio stations and 8 private newspapers, government seeks to regulate/control the media;

*Donors*: very influential due to the aid-dependency of Zambia, particularly influential when donors are harmonised, influence PRSP;

*Local governments*: formally established, but starved of funds, national politicians are more responsive to urban municipalities, since these are characterised by higher number of potential votes, more mobilised electorate and are mostly inhabited by the own/dominating ethnic group.

- e. *Analysis of the coordination among stakeholders*: analyses the coordination among the key stakeholders. The government and administration do not ensure effective central coordination, and government, administration and civil society lack the capacities and incentives to coordinate their activities.

## 2. Analysis of the drivers of pro-poor change:

- a. *Analysis of the nature of the policy process*: policy decisions are influenced by a wide range of political factors and there is little evidence that a linear, technocratic process has consistently influenced the larger decisions (i.e. there is no institutionalised decision-making process);
- b. *Analysis of policy dualism*: substantial difference between formal policy statements and the reality of policy action due to limited commitment to the formal policy statements;
- c. *Analysis of the constrained policy intent*: reform-minded politicians are facing fiscal and political constraints:

*Fiscal constraints*: the room for manoeuvre is significantly constrained by the fiscal constraints of a low income country;

*Political constraints*: the behaviour of the politicians is highly influenced by the political culture of centralised and ad hoc decision making (this leads to national 'fire fighting' actions), practice of clientelist politics (political supporters and family members request lucrative posts, which leads to split ministries and inflated parastatals) and tensions between the urban and rural electorate (due to the bias to the urban electorate, this leads to fixed low food prices and impoverished farmers).

- d. *Analysis of policy as reaction*: Politics is considered and instrument to respond to crises as they arise (i.e. no political culture of forward looking policy making). Therefore, reform-minded politicians need to wait for the crisis or frame reform policies as 'crises' to get them on the political agenda.

3. **Analysis of international/regional trade prospects**: This sub-analysis sets out to assess how increased trade could impact on the agricultural sector in Zambia (e.g. new incentives for production, increased competition, inflow of technology and knowledge).

4. **Analysis of the context for increasing demand on policy:** This sub-analysis sets out to assess the prospects in specific sub-sectors (e.g. pro-poor tourism, enhanced production in weakly-integrated areas, supermarkets and trade with South Africa).
5. **Identifying and supporting the potential demand for policy change:** This sub-analysis sets out to assess whether there is potential demand for policy change and whether it is effectively articulated.

**Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

**Strengths:**

- It explains, convincingly, how the agricultural sector is embedded in and influenced by the overall political structures, processes and culture in Zambia. For example, it helps to better understand the policy environment of the sector by describing the political system (i.e. lack of institutionalised political decision making process), the underlying incentives (e.g. political constraints) and the political culture (e.g. culture of ‘fire fighting’ and crisis response).
- It goes on to show how powerful coalitions of different social groups can influence reforms. For example, it points out that unified or collaborating organisations speaking with ‘one voice’ can have much more political influence than fragmented interest groups (e.g. powerful coalition of Christian denominations and weak fragmented professional associations).
- This study analyses in detail the political decision-making and implementation process. The study describes how the political process works and how it is influenced by different political actors.

**Weaknesses:**

- The study does not provide concrete operational implications for support to sector reforms.
- The framework used in this study – an early version of the Drivers of Change approach – has not yet been tested in other country and sector contexts. So far, this study is the only publicly accessible sector-level study that is influenced by the country-level Drivers of Change approach.

**Key references:**

Farrington, J. and Saasa, O. (2002) *Drivers for Change in Zambian Agriculture: Defining What Shapes the Policy Environment*. Final Report. Submitted to DFID.

## 4 Country-level and politics-centred political economy approaches, frameworks and studies

### 4.1 The Drivers of Change (DoC) approach

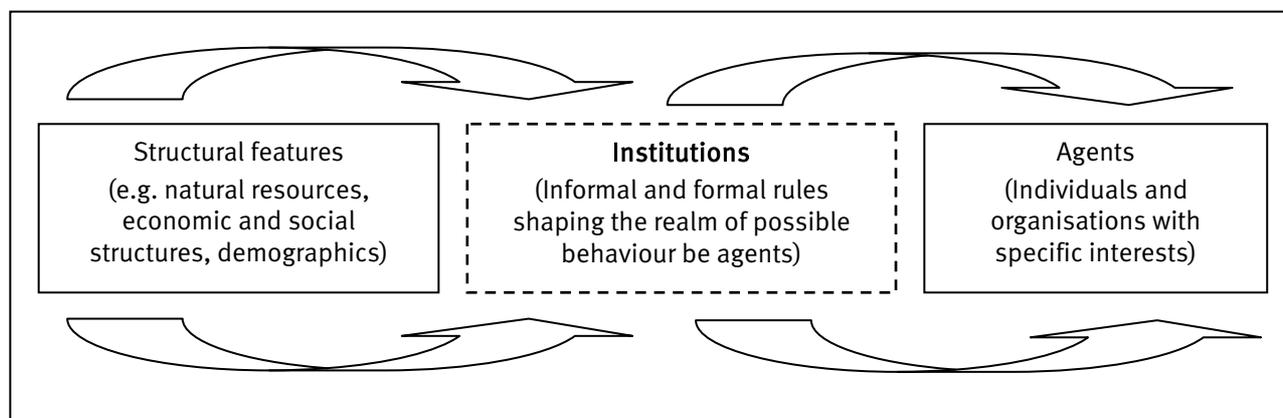
#### Conceptual approach: Why is this approach interesting for sector-level policy analysis?

Since 2002, DFID has developed the Drivers of Change (DoC) approach which applies a historically informed political analysis of country contexts as the basis for aid strategies. It takes the stance that development processes are inherently political and that donor interventions are political actions that influence the political landscape in a partner country. The approach seeks to develop a better understanding of change – which is ‘at the heart of development’ – and to develop more strategic ways of managing change in favour of the poor (see Unsworth 2003:2). Therefore, it seeks to find out what is ‘driving’ change, under what conditions change is likely to be positive or negative (i.e. pro-poor or anti-poor) and how positive change can be supported. Thus, the approach sets out to identify ‘ways of thinking about change which help them keep longer-term, strategic objectives in view, and to identify medium-term, incremental steps to address the root causes of bad government’ (Unsworth 2003:2). Country-level DoC approach is one of the most renowned, extensively tested and well-documented country-level political economy approaches. Therefore, it provides interesting and insightful lessons for sector-level approaches (see Sections 3.3 and 3.9).

#### Methodology: What are the building blocks, steps and operational implications of the analysis?

The country-level approach comprises three components with ascending order of flexibility and relative speed of change: structural features, institutions and agents (see DFID 2004:1):

Figure 4.1: The Drivers of Change Approach



Source: DFID (2004)

**Structural features:** These comprise, for example, the history of the state, the endowment with natural resources, the economic and social structures, the demographic structure and changes, regional issues, globalisation, trade and investment or urbanisation.

**Institutions:** These are defined as the ‘informal and formal rules that determine the realm of possible behaviour by agents’. They include, for example, the political and public administration processes.

**Agents:** These are defined as ‘individuals and organisations pursuing particular interests’. They comprise, for example, the political elite, civil servants, political parties, local government, the judiciary, the military, faith groups, trade unions, civil society groups, the media, the private sector, academics or donors).

The approach focuses on the role of institutions, since they mediate between the influence of agents on structural features and vice versa. This perspective also includes an analysis of underlying incentive structures, interests of the agents and power balance between the agents (see DFID 2004:2).

The approach considers a standardised analytical framework ('single blueprint approach') as inappropriate for this kind of analysis. On the one hand, this makes the analysis more flexible and relevant for local circumstances. On the other hand, it makes the comparison of the analytical findings more difficult due to highly differing focuses, structures and scopes. Instead, the approach provides a set of six complementary sub-analyses. The first three sub-analyses seek to improve the understanding of the current and future dynamics of change within a country and the influence of internal and external factors; the fourth sub-analysis seeks to find out how these changes impact the poor and the fifth and sixth analyses seek to explain how DFID could contribute to pro-poor change (see DFID 2004:2):

1. **Basic country analysis:** covers the social, political, economic and institutional factors affecting the dynamics and possibilities for change.
2. **Medium-term dynamics:** covers the policy processes, in particular the incentives and capacities of agents operating within institutions.
3. **Role of external forces:** covers the intentional and unintentional actions of donors.
4. **Links between changes and poverty reduction:** covers how change is expected to affect poverty and on what time-scale.
5. **Operational implications:** covers how to translate DFID's understanding into strategies and actions.
6. **How we work:** covers DFID's organisational incentives, including incentives promoting or impeding the retention of country knowledge.

### Lessons learned:

Due to the high number of empirical country studies and several reviews, the DoC approach and field studies provide many valuable lessons for sector-level (DoC) approaches:

- a. *The biggest impact:* The DoC studies had the biggest impact, when the following criteria were met (see DFID 2005a):

*Undertaken at the right time:* The studies were undertaken well in advance of planning and programming exercises to allow findings to inform the process or when a significant proportion of the country team were new and open to new information.

*Clearly defined purpose and future use:* The DFID country office clearly defined the purpose of the study and the future use of the report (e.g. the scope of the study is tailored to fit the financial and time resources of the authors of the study; the audience for the study are clearly defined; a dissemination strategy is developed; the country teams use the findings to stimulate debate).

*Tightly written executive summary:* Studies included a tightly written executive summary supported by charts, tables and maps.

*Challenging conventional wisdom:* The studies included a section challenging conventional wisdom or assumptions.

*Dissemination of separate versions:* The findings were most effective, when tailored versions of the report were produced for different audiences; when the documents were translated to stimulate wider debate; when the release of the findings was carefully timed and sequenced (e.g. before or after political events).

- b. *Limitations:* Due to the following limitations, only few studies have actually altered the shape and nature of the DFID programmes (see DFID 2005b:1f):

*Too broad scope:* The majority of past DoC reports were too broad in scale and range. Given the high complexity of the issues to be considered, this did not allow for in-depth and practical recommendations on specific actors or institutions (e.g. between 9 to 18 ‘drivers’ were identified in each country):

*Focus on known issues and symptoms:* The majority of the reports have focussed on the headline issues and/or symptoms (e.g. corruption and elite capture) and, thus, tend to reiterate much of what was already known rather than identifying new issues and revealing the underlying causes (e.g. motivations of the individuals and groups involved);

*Blind eye on incentives:* Most of the reports do not analyse the ‘lack of incentives’ for individuals and groups in detail. Therefore, the reports offer only few suggestions about the potential and practical ‘levers of change’ or the better understanding of how behavioural change could be brought about.

- c. *Future challenges:* In the future, DoC studies will move towards the following directions (see DFID 2005b:3):

*Focus in depth on a sector:* DoC studies should focus in depth on a sector in which DFID is active (see DFID 2005b:3);

*Identify levers of change:* The TORs of future DoC studies need to make sure that the study sufficiently draws attention to investigate potential levers of change (see DFID 2005b:3);

*Focus on non-traditional partners and channels:* Future DoC studies need to focus more on non-traditional partners and channels, in particular the private sector and the media (see DFID 2005b:3);

*Focus on regional and global factors:* Future DoC studies need to focus more on regional or global factors.

### **Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

#### **Strengths:**

- Country-level DoC studies have sensitised development agencies and research institutes for political economy studies, including sector-level studies, and have contributed to the establishment of political economy approaches.
- The reviews and empirical studies provide a rich source of methodological experience and country-specific knowledge on political economy analysis. At present, 18 country-level Drivers of Change studies are publicly accessible. These lessons learned on biggest impact, limitations and future challenges are highly relevant for sector-level approaches.
- This historically informed approach helps to develop a better understanding of medium and long-term societal change. Sector-level studies should take into account these change processes at the country-level and complement them with medium and long term change processes at the sector level.

#### **Weaknesses:**

- The scope of the majority of the country-level studies was too broad to allow for in-depth analysis of the key structures, institutions, processes and actors. Limiting the scope to specific sectors might help to concentrate on a smaller number of key factors.
- Many of the country-level studies did not provide in-depth and practical recommendations for policy management. Therefore, sector-level studies should place particular emphasis on detailed and concrete operational implications. So far, no sector-level DoC studies are publicly accessible.
- The approach does not provide concrete theoretical and practical guidance on how to analyse and influence the domestic policy making and implementation process. Therefore, sector-level studies should seek to link the building blocks structures, institutions and actors to the political process.

**Key references:**

DFID (2004) *Drivers of Change*. Public Information Note.

DFID (2005a) How to note: *‘Lessons learned – planning and undertaking a Drivers of Change study’*. A DFID practice paper.

DFID (2005b) Briefing: *‘Using Drivers of Change to improve aid effectiveness’*. A DFID practice paper.

**4.2 Power analysis****Conceptual approach: Why is this approach interesting for sector-level policy analysis?**

The Swedish International Development Agency (Sida) developed the ‘Power analysis’ to better understand the political power dimension of poverty and poverty reduction and, hence, design and implement programmes that more effectively change the power structures and dynamics in favour of poor people. This political analysis takes the stance that the politics of a country are critical for effective poverty reduction and that these politics involve harshly competing interests, bitter power struggles and fundamentally conflicting values. Sida does not provide a clearly defined definition of ‘power’, but rather core characteristics of power that need to be analysed in a power analysis (see Sida 2006:22ff):

The nature of power can be defined in many different ways. It can be seen as the ‘possession of individual actors’ or as ‘something circulating in a network of actors’. Power can be perceived as a ‘zero-sum game’, in which the player with the strongest capacity to influence policies and processes will be the winner at the expense of the others or as the ‘ability to build consensus, legitimacy and pursue collective goals’. Moreover, power can be regarded as ‘formal authority’ or as a ‘hidden or internalised cultural pattern of behaviour’ that prevents from challenging specific norms and procedures. It can be linked to the status of individual actors based on their symbolic, cultural or economic capital or as a ‘relationship between actors’, such as the creation of societal hierarchies. Power can also be distinguished into ‘controlling power’ – the power over people and resources – and ‘constructive power’ – the power to serve the people and make use of resources. According to this definition, countries can be powerless and powerful at the same time (e.g. countries can have too little constructive power – i.e. capacity to organise, to direct public money, to command a civil service – and too much controlling power – i.e. oppress their citizens). Moreover, there are contradicting views on how powerful the state should be: ‘liberals’ wish a lean and weak state to protect the citizens from excessive control and abuse of state authority, while ‘collectivists’ wish a capable and strong state to enforce the collective good.

Based on this broad concept of power, the analysis looks at the dominant actors, formal and informal institutions, underlying incentives and structures of power in a society. It seeks to find out where the real power lies, how power is distributed, what kind of power is exercised, how power is exercised (e.g. does the central state have too much or too little control), how power is understood and perceived and by whom power is used for what purposes and with what consequences. Thus, it analyses the legitimacy of power (e.g. elections or beliefs and cultural practices), the foundations of the political power base (e.g. strong leadership or strong institutions), the generation and transfer of power (e.g. informal agreements or formal elections), the abuse of powers (e.g. semi-authoritarian behaviour and rules), the formal power structures (e.g. formal rights of poor people), the informal practice (e.g. underlying incentives and customs), the ability of the poor and their advocates to articulate their interests (e.g. access to information, knowledge and organisational capacity) and the institutional channels and arenas for voicing these interests (e.g. elections, hearings and the media). The analysis focuses content-wise on issues related to democracy, human rights, gender equality and poverty reduction.

**Methodology: What are the building blocks, steps and operational implications of the analysis?**

The approach combines a series of different analyses or sub-analyses (see Sida 2006:15):

1. **Basic country analysis:** to understand the social, political, economic and institutional factors affecting the dynamics and possibilities for pro-poor change (including informal and informal actors, structures and institutions of power in society, underlying history, geopolitics, natural resources, state formation and demography).
2. **Medium-term dynamics of change analysis:** to understand the incentives and capacities of pro-poor agents of change involved in the policy-making process (including relevant institutions, policy processes and arenas).
3. **Role of external forces:** to understand the influence of donor strategies, actions and aid modalities on the power structures and dynamics in the partner countries.
4. **Link between change and poverty reduction:** to find out how changes will affect poverty, on what time-scale and the implications of these changes.
5. **Operational implications:** to provide practical guidance on how the better understanding of the underlying interests and power relationships can be translated into donor strategies, actions and aid modalities.
6. **Recommendations for Sida's internal organisation:** to identify organisational incentives for staff to acquire and retain deeper knowledge of country context.

The approach provides a set of core principles and questions rather than a fixed framework for analysis to be able to identify the highly differing actors, structures and processes in different countries. These core issues can be grouped in three main sets of questions: articulation and voice, responsiveness and accountability (see Sida 2006:14ff):

**Articulation and voice:** This set of questions seeks to gain a better understanding whether and how (poor) people have a voice and can articulate their suggestions, concerns and comments. To do so, it looks at the channels through which the poor can express their views and interests and how these channels can be made more effective. The following questions could guide the analysis:

Do poor people have the organisational capabilities to voice their interests?  
 Is there a culture of voicing your interest?  
 Do poor people have the freedom to articulate their views?  
 Do poor people make use of this freedom?  
 What are the central agents and organisations providing a voice to the poor (e.g. poor people, advocates or federations of poor peoples' organisations)?  
 What are the structures and processes for articulation and representation in decision-making (e.g. one-party state or multi-party democracy)?  
 What are the arenas for articulating interests of the poor (e.g. national/local level or rural/urban areas)?  
 Are there effective institutionalised channels for poor people to voice their interests and participate in the decision-making process (e.g. elections)?  
 What incentives do poor people have to organise and articulate their interests individually or collectively?  
 What incentives do agents have to speak out on behalf of the poor?  
 How do different agents make use of poor people's interests (e.g. interaction between traditional leaders and elected leaders)?  
 What formal and informal institutions impact on how poor can voice their interests (e.g. formal or customary law)?

**Responsiveness:** This set of questions seeks to gain a better understanding why some agents respond better to (poor) people's needs than others. To do so, it looks at the mechanisms that make agents listen to the voices of the (poor) people and respond to their voiced interests. The following questions could guide the analysis:

What actors, processes and structures strengthen the responsiveness of agents to the people's interests?

What incentives do actors have to respond to people's interests?

Do actors have the capacity to respond to people's interests?

Are the structures and processes adequate to ensure high levels of responsiveness?

Are there a political culture and professional norms of the decision-makers supporting responsiveness?

How can the poor and their organisations be supported to push for more responsiveness?

Do poor people have access to systems or arenas that can respond to their interests (e.g. state, civil society and market)?

**Accountability:** This set of questions seeks to gain a better understanding why some agents can be held to account and why others cannot. To do so, it looks at the mechanisms for holding agents accountable for their decisions and actions (e.g. policies, spending priorities or ignoring interests of the poor). These mechanisms need to be institutionalised, capable and sustainable to be effective. Accountability mechanisms include transparency (e.g. systematic reporting on public spending), answerability (i.e. consultation procedures give all affected parties a right to be heard and agents the duty to justify their decisions and actions) and controllability (i.e. court-like structures of sanctioning). The following questions are proposed to guide the analysis:

Are there effective sanctions against the abuse of power?

How do agents legitimise their power?

What are the power relations between different agents (e.g. national and local government)?

To whom are agents accountable (e.g. citizens or donors)?

How do donor strategies, activities and aid instruments impact on accountability?

### Lessons learned:

The review of the existing Power Analysis studies provides many interesting lessons learned for sector-level (Power Analysis) approaches (see Sida 2006:10ff):

#### a. *Process, method and content:*

*Clear primary purpose:* The TORs of the analysis should clearly define the primary purpose of the analysis – i.e. whether the analysis primarily aims to deepen knowledge, facilitate dialogue, foster influence or feed into policy development and planning. The report or process can only be useful and effective, if the objectives are sufficiently clear.

*Strengthen local expertise:* Studies on deep rooted conditions, structures and actors in a particular country should be done by local experts and researchers to the largest extent possible, depending on the sensitivity of the issue. It is a matter of creating local arenas for political debate and facilitation of local production of analysis understanding.

*Report and process are equally important:* Both the report and the process leading to this report are results of the analysis. The process is as important as the report itself. Since politics and political institutions in developing countries are often little institutionalised and in flux, single reports are often valid for only a short period of time. Therefore, series of seminars or minor reports over a longer period of time could be more suitable.

*No need to reinvent the wheel:* There are no reasons why donors have to reinvent the wheel individually. Analysis could be done jointly or through division of labour or to fill gaps in existing analysis.

*Specialised studies:* There is no need that every donor agency conducts or commissions the same kind of studies in each country. Specialised studies could follow large all-encompassing country level analysis as a means to adding value and avoiding duplication.

*Do no harm:* Donors need to make sure that their interventions – both analysis and engagement – do not have negative impacts on the potentially conflictive political situation in the partner country, especially in situations, where the government feels threatened by mounting opposition or violent conflict.

*Linking power and conflict analysis:* Power analysis focuses on the way power is distributed, transferred and exercised under a system of more or less working societal institutions and with peaceful means. Conflict analysis focuses on the way power is distributed, transferred and exercised under a dysfunctional or broken down system of societal institutions and with violent means. The boundaries between the two systems and analyses are fluid.

*Commitment of senior management:* The commitment of senior management is a prerequisite in order to initiate, plan and complete such complex studies as political economy studies. Therefore, Sida staff needs internal incentives to carry out this work.

*Copy-right and personal security:* Depending on the sensitivity of the issue, the names of the authors of the reports may need to be withheld from official versions.

b. *Remaining challenges – Process, content and harmonisation:*

*Participatory processes:* The degree and types of participatory processes will vary considerably depending on the primary objective of the study and the country's degree of authoritarianism/semi-authoritarianism/democracy.

*Public discussion:* Public discussion and validation of the issues addressed in the analysis is easier in some countries than in others, depending on their political sensitivity and opportunities for public dialogue.

*Dissemination of findings:* Practice of disseminating findings varies. There are major opportunities for constructive dialogue and joint learning through more active dissemination and engagement.

*Local knowledge production:* Parallel support to local knowledge production, formulation of pluralist opinions and agenda setting is critical to address the analytical hegemony of development agencies, which often have the power to define problems and solutions.

*Operational implications:* The terms of references should ask for operational implications and these could be discussed and validated in workshops with focus groups.

*Incentives for staff:* Sida staff needs clearer incentives to plan and implement power analysis.

*Content:* Power analyses needs to address the gender dimension, the links to HIV/Aids, the importance of growth and the links to human rights based approaches more in detail.

*Harmonisation:* Ideally, a coordinated approach to political economy analysis should be orchestrated to feed systematically into the deliberations on joint assistance programmes and strategies. However, this does not necessarily imply that joint political economy studies, but rather that the donors undertake studies based on their particular needs, interests and comparative advantage and that experiences are shared and discussed. The OECD/DAC might provide a good framework for this exchange of experiences.

**Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

**Strengths:**

- It presents a holistic approach to analysing the generation, distribution and redistribution of power in a society and its impact on poverty reduction. Elements of voice, accountability and responsiveness provide enlightening entry points for analysis.
- The review of the Power Analysis approach and the empirical studies provide interesting methodological experience and country-specific knowledge on political economy analysis. Sector-level (Power Analysis) studies should build on these experiences.
- The approach emphasises the need for harmonising political economy approaches in order to fill the gaps in existing analysis and reduce duplication. Following this recommendation, sector-level

approaches should seek to ensure that sector-level studies are jointly designed, commissioned or discussed among development agencies engaged in political economy analysis and that the studies are clearly complementary to existing studies.

**Weaknesses:**

- The Power Analysis approach provides a generic framework with no concrete theoretical and practical guidance for policy analysis and management. On the one hand, this allows for a very flexible approach and highly context-specific studies. On the other hand, this limits the possibility to compare different (sector) studies and develop a common methodology.
- The presented understanding of power is very broad and, therefore, very difficult to analyse. It would better serve to have more theoretical and practical guidance on how to identify and change the most important power structures and dynamics in favour of poor people.
- The approach has not yet been tested extensively in different country and sector contexts. So far, only two Power Analysis studies are publicly accessible.

**Key references:**

Sida (2006) *Power Analysis – Experiences and Challenges. Concept Note.*

### **4.3 The capability, accountability, responsiveness framework**

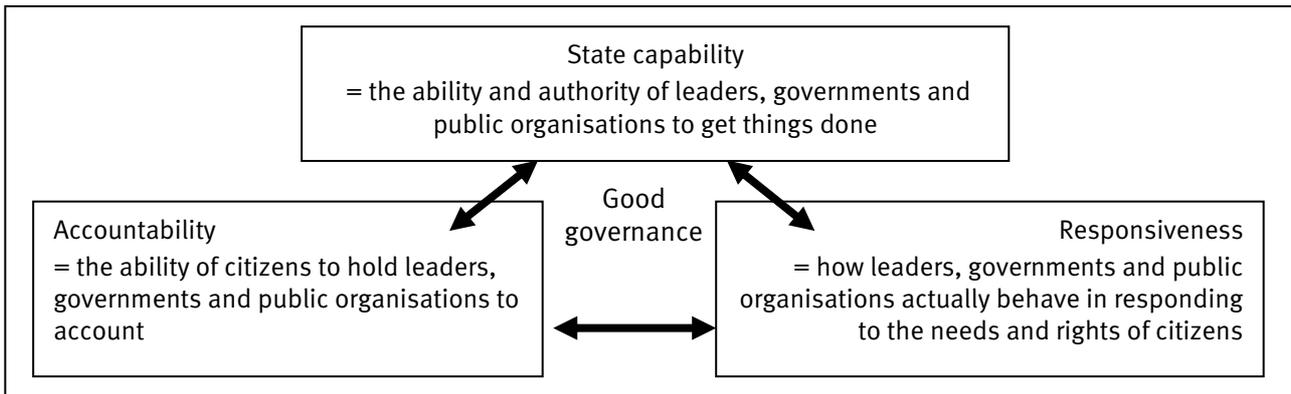
**Conceptual approach: Why is this approach interesting for sector-level policy analysis?**

In 2006, the DFID presented the ‘Capability, Accountability, Responsiveness’ (CAR) framework in the White Paper ‘Eliminating world poverty: making governance work for the poor’. This framework aims at better understanding and influencing the governance factors that impact on effective poverty reduction. According to the framework, poverty can only be effectively reduced, when governments are capable of providing services, when citizens can hold their governments to account and when governments respond to the needs of their citizens. In order to assess the governance situation at the country-level, the framework combines three core features of effective states and good governance: capability, accountability and responsiveness (DFID 2006:20). These factors are seen as complementary. This analytical framework is centred on politics: ‘This is about politics. Politics determines how resources are used and policies are made. And politics determines who benefits. In short, good governance is about good politics’ (DFID 2006:23). The CAR framework has two objectives (Moore & Teskey, 2006:1). Firstly, the framework aims at giving DFID staff and the people with whom they work a ‘common language’ to use in working on governance. Secondly, it aims at providing to the outside world (e.g. Parliament, the electorate and other government agencies) a simple and comprehensible summary message about what ‘governance’ actually means in DFID practice (i.e. ‘We are trying to make governments more capable, accountable and responsive’).

**Methodology: What are the building blocks, steps and operational implications of the analysis?**

The framework is more of an approach than a concrete analytical framework. Hence, it provides more a generic angle on how to think about state effectiveness and good governance, rather than a specific analytical tool on how to assess governance situations. The relationship between the three core features of effective states and good governance can be visualised as follows (DFID 2007:14):

**Figure 4.2: The capacity, accountability, responsiveness framework**



Source: DFID (2007)

The framework proposes to take into account the following issues during a governance assessment:

**State capability:** The framework defines state capability as the government's and public authorities' ability to effectively formulate and implement policies'. Therefore, state capability can be distinguished into the following two areas:

*Effective formulation of policies:* to find out what important stakeholders want; to broker political compromises between different interests and build wide-spread support for policy change and to explore the costs and benefits of different options and to work out appropriate strategies;

*Effective implementation of policies:* to find the right agencies to work with and through (governmental, non-governmental, third sector); to coordinate different actors and forces, to ensure sustainability of implementation and to establish feedback mechanisms.

**Accountability:** The framework defines accountability as 'institutionalised relationships' between different actors. These relationships comprise of 'accountees' – actors who are held to account – and 'accounters' – actors who are holding to account. Interactions between these two types of actors are characterised by regular, established and accepted rules. There are many ways in which actors can be held to account (e.g. command-hierarchy, network-influence or market allocation), but all accountability relationships have four distinct stages:

*Standard-setting:* setting out the behaviour expected of the 'accountee', and thus the criteria by which they might validly be judged;

*Investigation:* exploring whether or not accountees have met the standards expected of them;

*Answerability:* processes in which accountees are required to defend their actions, face sceptical questions, and generally explain themselves;

*Sanction:* a process in which accountees are in some way punished for falling below the standards expected of them (or perhaps rewarded for achieving or exceeding them).

The framework stresses the fact that there can also be too much accountability. For example, when accountors have excessive concern with the process (e.g. with how the accountees achieve the set goals), rather than the performance of the accountee (i.e. the whether the accountees achieve the set goals).

**Responsiveness:** The framework defines responsiveness as 'the government's or public authority's effort to identify and meet the needs or wants of the citizens'. There are many reasons why governments and public authorities may be responsive to the needs of their (poor) citizens (e.g. formal electoral rules or Confucian values can lead to mass welfare). Therefore, responsiveness (i.e. the type of behaviour) needs to be separated from accountability (i.e. the institutionalised relationships). The framework stresses that there can also be too much responsiveness. For example, populism means that governments respond too much to the wants of their populations at the expense of responsible

policies (e.g. short-term subsidies without long-term institutional reforms) or politicians respond too much to the wants of a specific group (e.g. political patrons to their clients).

### **Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

#### **Strengths:**

- As it focuses on the role of the state in poverty reduction, the three core elements of effective states – capability, accountability and responsiveness – provide many interesting entry points for the analysis of the formal and informal political institutions and practices. Sector-level (CAR) studies could use this approach to analyse the structure, functioning and dynamics of the state and its impact on the dynamics at the sector level.
- The approach stresses the importance of capability for effective policy making and implementation. Sector-level studies could use this approach to analyse the readiness and feasibility of sector reforms.
- The approach offers a common and easy to understand translation of what good governance could mean in practice. Sector-level studies could use this terminology to produce more easy to understand and concrete findings.

#### **Weaknesses:**

- The framework is more of a generic approach than a ready-to-use analytical framework. More concrete theoretical and practical guidance on the (sector-specific) application in practice would be helpful, such as key indicators regarding capability or the sequence of different analytical steps.
- The framework would become even more interesting, if it provided (sector-specific) guidance on how to analyse and manage the political economy obstacles to more capable, accountable and responsive states.

#### **Key references:**

DFID (2006) *DFID White Paper 'Eliminating World Poverty: Making Governance Work for the Poor'*.

DFID (2007) *Governance, Development and Democratic Politics. DFID's work in building more effective states*. London: DFID.

Moore, M. and Teskey, G. (2006) *The CAR Framework: Capability, Accountability, Responsiveness. What Do These Terms Mean, Individually and Collectively?* A Discussion Note for DFID Governance and Conflict Advisers.

## **4.4 The context, evidence, links framework**

### **Conceptual approach: Why is this approach interesting for sector-level policy analysis?**

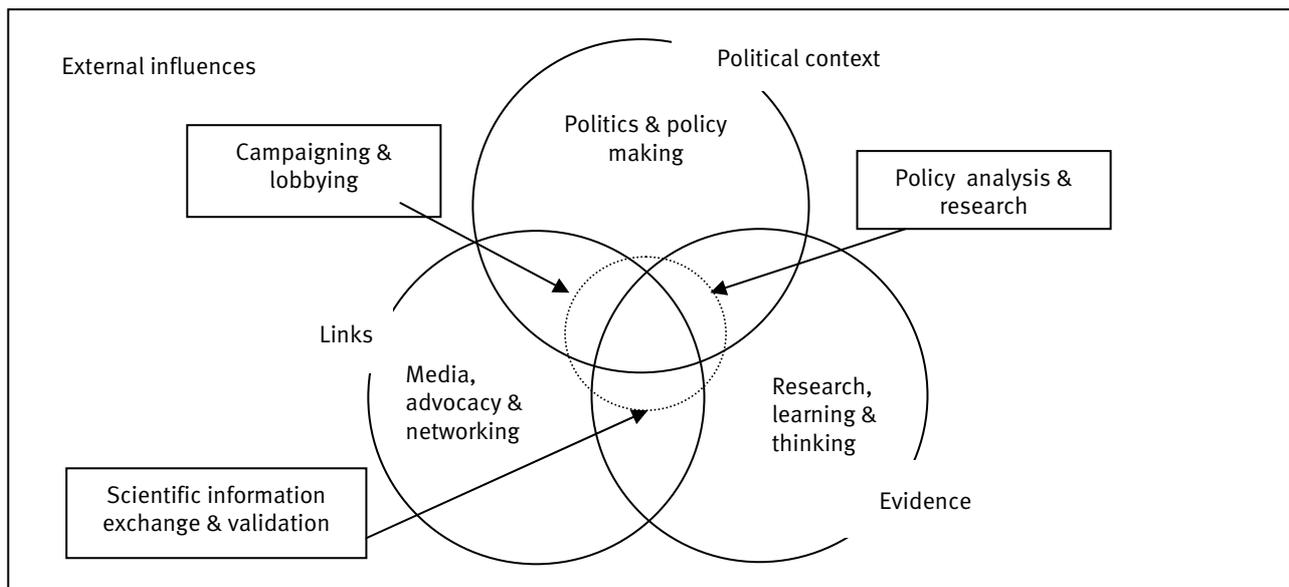
The ODI developed the 'Context, Evidence, Links' framework to better understand how research can contribute to policies that truly benefit the poor and what role research and evidence play in development policy and practice. At present, there is no systematic understanding of what, why, when and how research feeds into the development and implementation of policies (see Court & Young 2003:vii). To fill this gap, the framework seeks to analyse circumstances under which knowledge, scientific evidence and research are likely to be adopted by policy makers and development practitioners. The framework distinguishes three main factors: political context, evidence and links between policy and research communities. The political context is shaped by politics and institutions and determines the research-policy links. Evidence refers to the credibility and communication of scientific evidence, which determine whether or not evidence is taken up by policy. The links comprise communities, networks and intermediaries, who influence policy change. These factors are influenced

by an external context. The framework analyses both individual roles of each factor and interplay between these four factors.

**Methodology: What are the building blocks, steps and operational implications of the analysis?**

The framework provides theoretical and practical guidance for analysing and influencing interactions of the four key factors in evidence-based policymaking (see Figure 3.4). The grey area in the middle is where there is a ‘convergence of convincing evidence providing a practical solution to a current policy problem, which is supported by and brought to the attention of policy-makers by actors in all three areas. And it is here that there is likely to be the most immediate link between evidence and policy’ (Young 2007).

**Figure 4.3: The context, evidence and links framework**



Source: Young (2004)

**Political context:** Policy analysts should find out whether there is political interest in policy change, whether there is room for manoeuvre and how policy makers perceive the problem. Policy managers should seek to get to know policy makers, identify supporters and opponents, prepare for regular policy-influencing opportunities and look out for policy-influencing windows. The framework recommends to work with policymakers through commissions and to establish an approach that ‘combines a strategic focus on current issues with the ability to respond rapidly to unexpected opportunities’ (Young 2007). The following set of questions is proposed as a flexible tool:

What you need to know	What you need to do	How to do it
<ul style="list-style-type: none"> <li>- Who are the policy-makers?</li> <li>- Is there policy-maker demand for new ideas?</li> <li>- What are the sources/strengths of resistance?</li> <li>- What is the policy-making process?</li> <li>- What are the opportunities and timing for input into formal processes?</li> </ul>	<ul style="list-style-type: none"> <li>- Get to know the policy-makers, their agendas and their constraints.</li> <li>- Identify potential supporters and opponents.</li> <li>- Prepare for opportunities in regular policy processes.</li> <li>- Look out for unexpected policy windows.</li> </ul>	<ul style="list-style-type: none"> <li>- Work with the policymakers.</li> <li>- Seek commissions.</li> <li>- Line up research programs with high-profile policy events.</li> <li>- Reserve resources to be able to move quickly to respond to policy windows.</li> <li>- Allow sufficient time &amp; resources.</li> </ul>

**Scientific evidence:** Policy analysts should seek to find out whether there is enough, convincing and relevant evidence and if this evidence is practically useful, the underlying concepts familiar or it needs re-packaging. Policy managers should seek to ensure the credibility of their evidence. Credibility has

much more to do with long-term reputation than the scientific credibility of a single piece of research. Policy managers should seek to provide practical solutions to policy problems in familiar language and to generate legitimacy for action. The following set of questions is proposed as a flexible tool:

<b>What you need to know</b>	<b>What you need to do</b>	<b>How to do it</b>
<ul style="list-style-type: none"> <li>- What is the current theory?</li> <li>- What are the prevailing narratives?</li> <li>- How divergent is the new evidence?</li> <li>- What sort of evidence will convince policy-makers?</li> </ul>	<ul style="list-style-type: none"> <li>- Establish credibility over the long term.</li> <li>- Provide practical solutions to problems.</li> <li>- Establish legitimacy.</li> <li>- Build a convincing case and present clear policy options.</li> <li>- Package new ideas in familiar theory or narratives.</li> <li>- Communicate effectively.</li> </ul>	<ul style="list-style-type: none"> <li>- Build up programmes of high-quality work.</li> <li>- Action-research and pilot projects to demonstrate benefits of new approaches.</li> <li>- Use participatory approaches to help with legitimacy &amp; implementation.</li> <li>- Clear strategy for communication from start.</li> <li>- Face-to-face communication.</li> </ul>

**Links with media, advocacy and networks:** Policy analysts should seek to find out who are the key individuals and organisations, whether there are existing networks and what are the best ways for disseminating information. Policy managers should seek to make the most of the existing links by getting to know the other actors, working through existing networks and building coalitions and partnerships. The following set of questions is proposed as a flexible tool:

<b>What you need to know</b>	<b>What you need to do</b>	<b>How to do it</b>
<ul style="list-style-type: none"> <li>- Who are the key stakeholders in the policy discourse?</li> <li>- What links and networks exist between them?</li> <li>- Who are the intermediaries and what influence do they have?</li> <li>- Whose side are they on?</li> </ul>	<ul style="list-style-type: none"> <li>- Get to know the other stakeholders.</li> <li>- Establish a presence in existing networks.</li> <li>- Build coalitions with like-minded stakeholders.</li> <li>- Build new policy networks.</li> </ul>	<ul style="list-style-type: none"> <li>- Partnerships between researchers, policy-makers and communities.</li> <li>- Identify key networkers and salespeople.</li> <li>- Use informal contacts.</li> </ul>

**External environment:** Policy analysts should seek to find out who key external actors are, what their agenda is and how do they influence the political context. The following set of questions is proposed as a flexible tool:

<b>What you need to know</b>	<b>What you need to do</b>	<b>How to do it</b>
<ul style="list-style-type: none"> <li>- Who are main international actors in the policy process?</li> <li>- What influence do they have?</li> <li>- What are their aid priorities?</li> <li>- What are their research priorities and mechanisms?</li> </ul>	<ul style="list-style-type: none"> <li>- Get to know the donors, their priorities and constraints.</li> <li>- Identify potential supporters, key individuals and networks.</li> <li>- Establish credibility.</li> <li>- Keep an eye on donor policy and look out for policy windows.</li> </ul>	<ul style="list-style-type: none"> <li>- Develop extensive background on donor policies.</li> <li>- Orient communications to suit donor priorities and language.</li> <li>- Try to work with the donors and seek commissions.</li> <li>- Contact (regularly) key individuals.</li> </ul>

**Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

**Strengths:**

- It helps to better understand under what circumstances knowledge, scientific evidence and research can influence political decision-making and implementation processes. Thus, the framework provides guidance on the use of scientific evidence for evidence-based policy making and the use of scientific evidence in political communication, lobbying and advocacy.
- The framework provides ready-to-use and action-oriented matrices with focused guiding questions. For example, the 'How to do it' columns provide concrete operational implications.

- The framework presents experiences from 50 case studies in different country and sector contexts. This helps to identify typical research-policy relationships in different contexts.

#### Key references:

Crewe, E. and J. Young (2002) *Bridging Research and Policy: Context, Evidence and Links*. ODI Working Paper No. 173. London: Overseas Development Institute.

Court, J. and J. Young (2003) *Bridging Research and Policy: Insights from 50 Case Studies*. ODI Working Paper No. 213. London: Overseas Development Institute.

Young, J. (2004) *Bridging Research and Policy in International Development: An analytical and practical framework*. RAPID Briefing Paper No. 1. London: Overseas Development Institute.

Young, J. (2007) 'Bridging Research and Policy: The RAPID Approach', in: Ayuk, E. and M. Marouani (eds.) *The Policy Paradox in Africa: Strengthening Links between Economic Research and Policymaking*. The International Development Research Centre (IDRC). Africa World Press, IDRC.

## 4.5 The politics of policies approach

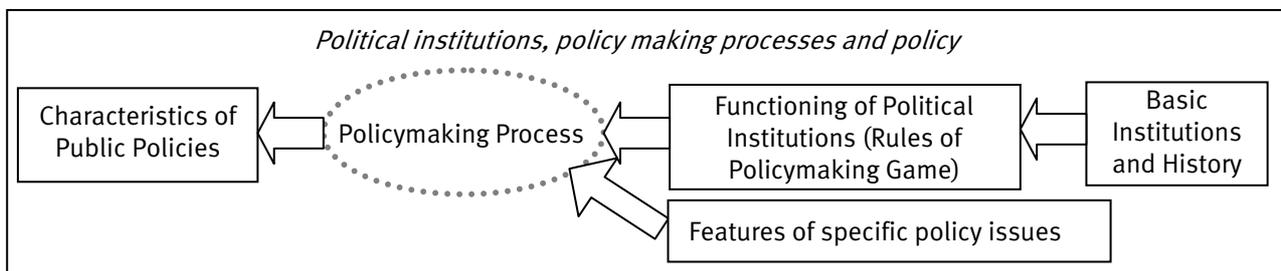
### Conceptual approach: Why is this approach interesting for sector-level policy analysis?

The 'politics of policies' approach was developed by the Inter-American Development Bank (IADB). It takes policies and policy change as endogenous (i.e. as outcomes of contingent political processes). The complex process by which the political actors in specific countries or sectors discuss, decide on and implement public policies over time is called the policymaking process (PMP). Hence, there is no 'right' policy that needs to wait for the right moment, but policies are an outcome of a given configuration of political institutions, processes and actors. The specific design of the PMP determines whether issues find their way on the political agenda, appropriate policies are formulated and whether these policies are effectively implemented.

### Methodology: What are the building blocks, steps and operational implications of the analysis?

This approach applies a multi-disciplinary 'new institutionalism' (and partly game theory) perspective to explain design and implementation of public policies, configuration and change of political institutions and behaviour of political, economic and social actors. The approach focuses on the role of political institutions in the PMP, but also takes into account the factors that impact on these institutions (see Figure 4.4):

Figure 4.4: The politics of policies approach



Source: Spiller & Tommasi (2003)

The PMP is characterised by the interaction of multiple political 'players' (e.g. the President, political parties and the Parliament) and other societal players that influence the political players (e.g. professional associations, workers' unions, the media, social movements and 'knowledge actors') with diverse powers, capabilities, time horizons, formal and informal roles, rules of engagement, preferences, incentives, constraints and expectations regarding the behaviour of the other players. These players interact in different political 'arenas' – which can be more or less formal (e.g. legislative committee or 'the street') and more or less transparent (e.g. courtrooms or closed-door negotiations).

The PMP can be described as a ‘dynamic game’ (e.g. short or long-term exchanges or transactions between the players). Hence, the process is described as ‘a succession of bargains among political actors, interacting in formal and informal arenas’ (Stein et al. 2005:11). Political institutions determine who the political players are, where they meet and how they interact. They are themselves the product of human choice in the past, rigid in the short-term and flexible in the long-term. Political institutions and the behaviour of political players are strongly influenced by ‘structural variables’ (e.g. historical and cultural legacies, fundamental cleavages, shared values, political history, federalism and oil-based economy).

The methodological approach provides three ways of analysing the PMP in a specific country or sector:

1. **Analysis of the policy content:** Policy changes require long-term support from a broad range of political, economic and social actors. Therefore, policy changes are more likely, when the content of the public policies can ensure this sustained support. There are no ‘right’ policies as they are all the outcomes of contingent political processes, but there are some criteria regarding the content of policies that are expected to make policy implementation more likely under the given political circumstances (see Stein et al. 2005:15ff):

*Stability:* The extent to which policies are stable over time (e.g. a predictable incentive structure is more important than the structure as such);

*Adaptability:* The extent to which policies can be adjusted when they fail or when circumstances change;

*Coherence and coordination:* The degree to which policies are consistent with related policies and result from well-coordinated actions among the actors who participate in their design and implementation;

*Quality of implementation and enforcement;*

*Public-regardness:* The degree to which policies pursue the public interest;

*Efficiency:* The extent to which policies reflect an allocation of scarce resources that ensures high returns.

2. **Analysis of the actors and arenas in the policymaking process:** The process of discussing, approving and implementing public policy can be referred to as the policymaking process. Depending on the political system, different configurations of political actors (or players) participate in this process (game) in specific arenas. The policymaking process can be understood as a process of bargains and exchanges (or transactions) among political actors (see Stein et al. 2005:17). The behaviour of the political actors in these exchanges and the nature of these exchanges themselves depend on the actors’ preferences, their incentives and on the opportunities and constraints they face. The behaviour of the political actors, in turn, depends on the workings of the political system and the political institutions. Hence, policymaking processes can be understood as the interaction of multiple actors with diverse powers, time horizons and incentives in various arenas (see Stein et al. 2005:18). To analyse the workings of the policymaking process, the following questions can be asked (see Stein et al. 2005:18):

Who are the key actors that participate in the PMP?

What powers and (formal and informal) roles do they have?

What are their preferences, incentives and capabilities?

What are their time horizons (actors with short-term horizons will tend to maximise short-term political benefits while actors with long-term horizons will tend to enter into inter-temporal agreements)?

In which arenas do they interact and what are the characteristics of those arenas?

What is the nature of the exchanges/transactions they undertake?

3. **Analysis of the policymaking process and policy outcomes:** Important features of public policies depend crucially on the ability of political actors to reach and enforce inter-temporal agreements – that is, to cooperate. In political environments that facilitate such agreements, public policies will tend to be of higher quality, less sensitive to political shocks and more adaptable to changing economic and social conditions (see Stein et al. 2005:19). The following features of institutional arrangements seem to make ‘cooperative outcomes’ more likely (see Stein et al. 2005:19):

There are good ‘aggregation technologies’ that ensure that the number of actors with direct impact on the policymaking game is relatively small;

There are well-institutionalised arenas for political exchange;

The key actors have long time horizons;

There are credible enforcement mechanisms for public policies, such as an independent judiciary or a strong bureaucracy to which certain public policies can be delegated.

4. **Strategic recommendations:** The framework provides two groups of recommendations (Stein et al. 2005:257):

*a. Fitting policies to the institutional contexts in which they are implemented:*

- The tendency to think of policies first and institutions later may be the source of many problems and errors. Politics and institutions are inseparable, and should be considered jointly in the analysis and design of strategies and operations. Referring to failed reforms as good ideas that could not be put into practice is illogical, as their infeasibility makes them bad ideas to begin with.
- A vision of development from the perspective of processes and not only from policies. Processes of policy formulation and implementation in detail in specific countries and sectors. Identify the possibilities for adopting policy reforms – and the constraints, the evolution of institutions, the agents of reform and the coalitions that might support them.
- Deepening the empirical indicators of governability, which make the analysis as objective as possible. It is necessary to advance from indicators based on perceptions to indicators that more directly and specifically measure and analyse the capacities of particular institutions.

*b. Initiatives that alter the framework of incentives in which actors operate:*

- It is difficult to produce institutional change by addressing and institution in isolation. To intervene effectively, it is important to understand the complex interdependences that exist among institutions.
- Institutions represent political and cultural expressions and should be understood as such. Institutional reform is more than a technical change whereby some rules are replaced by others. It is necessary to act through processes that are incremental and, with few exceptions, slow, in which old conceptions, ideas and interests gradually lose their strengths and are replaced by new ones.
- In the process of institutional change, demand factors, such as internal crisis and political will, outweigh supply factors, such as the availability of resources and knowledge from outside. Accordingly, countries must assume ownership of their reforms and generate the political will necessary to carry them out.
- Importing institutional models without taking into account the underlying conditions that make them possible can produce serious problems. Experience demonstrates the dangers of conceiving institutional change on the basis of ideal schemes or best practices without considering the broader institutional requisites for their success.
- Financial resources are a double-edged sword in relation to institutional change. It is important to understand that contributing financial resources does not change institutions

per se. It is necessary to ensure that financing is directed toward removing the obstacle that is blocking change.

- Financial resources can be an important catalyst for the process of change if their application is proportionate and strategic. Institutional innovations can be achieved, when three elements coincide that permit the system of incentives to be realigned: A window of opportunity opens, as a result of a crisis or political change that demonstrates the costs associated with not changing. The ideas and the technical knowledge that legitimize change and make it possible are transferred to actors that may benefit from change. A coalition of actors emerges that adopts these ideas, perceives them as consistent with their interests, and assumes a leadership role in the process of change.
- Institutional development is impossible without the development of political, economic and social leaders who can take advantage of crises that produce change in the incentives of the main actors. In such times, systems are open to being restructured, incorporating new actors, and modifying the relative power and roles they play. Leadership permits the opening of institutional opportunities that can generate further cycles of policy formulation and implementation and institutional renewal.

### **Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

#### **Strengths:**

- The framework is holistic and focused, at the same time – it takes into account all potentially relevant factors, but only analyses in detail, those that directly influence political decision making processes. For example, the history of policymaking in Venezuela cannot be understood without reference to the political economy of an oil economy.
- The framework stresses that each policy has its own politics, because the arrangement of political institutions, configuration of political actors and nature of the transactions differ significantly across sectors. For example, a long-term horizon is a key feature of pension reforms, while the teachers' union is a key feature of education reforms.
- The framework helps to better understand cross-sectoral dynamics affecting sector reforms. Some reforms transform the overall policymaking process that, in turn, impacts on policies in other sectors. For example, decentralisation transforms the political institutions (e.g. by establishing autonomous local governments), opens up new arenas for new political actors (e.g. locally elected mayors) and changes the political incentives (e.g. by providing alternative career opportunities for politicians).
- The framework provides a set of sector-level studies that illustrate how the framework can be applied in specific sectors. More sector-level studies will help to identify the factors that are most important to understand and influence the political dynamics in specific sectors.

#### **Key references:**

Stein, E.; Tommasi, M.; Echebarria, K.; Lora, E. and M. Payne (eds.) (2005) *Politics of Policies*. Economic and Social Progress in Latin America. 2006 Report. Inter-American Development Bank. Available from: [www.iadb.org/res/ipes/2006](http://www.iadb.org/res/ipes/2006).

## **4.6 From drivers of change to politics of development**

### **Conceptual approach: Why is this approach interesting for sector-level policy analysis?**

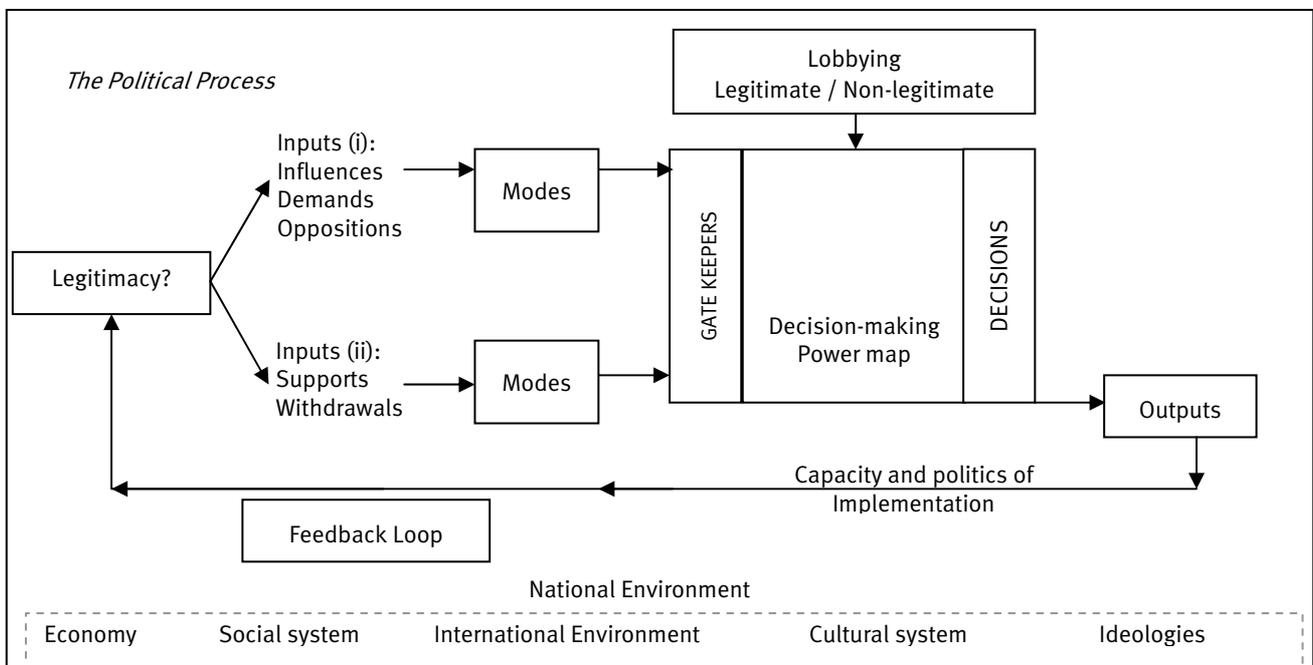
DFID commissioned Adrian Leftwich to refine the Drivers of Change approach and develop a framework that emphasizes the primacy of politics in developmental processes and outcomes (see Section 4.1). The central assumption is that development outcomes are determined by political processes – also called 'politics'. These political processes are defined as 'all the activities of cooperation, conflict and

negotiation involved in decisions about the use, production and distribution of resources' (Leftwich 2007:3). According to Leftwich (2007:5), 'political processes are not generally random and unpredictable. They usually occur within known and discoverable institutional contexts (understood here as rules governing behaviour), whether formal or informal.' In consequence, political will – or the lack thereof – can be explained as a '*function of the way in which the political processes work*' (Leftwich 2006:20). Therefore, this framework sets out to shed light on how different political processes lead to different development outcomes. The framework looks at the political process – more on the politics of decision-making than on the politics of policy implementation – and asks how different factors influence this process. According to Leftwich (2007:1), the framework can be applied to the national, sub-national, sector or organisational levels.

### Methodology: What are the building blocks, steps and operational implications of the analysis?

The framework provides theoretical and practical guidance on how to analyse key components of the political process. The following components are described in detail (see Leftwich 2007:12ff):

Figure 4.5: The politics of development approach



Source: Leftwich (2007:7, slightly modified).

**Structural context:** This component analyses the environment in which the political process is embedded and seeks to find out how this structural context (i.e. the economic, social and cultural systems and ideologies) influence the political process. This sub-analysis asks how various structural features impact on the political system and what sources, forms, organisations and ideologies of political power arise from them. For example, it asks how the culture shapes the political culture or how political power arises from economic power. The framework distinguishes two types of environments:

*Internal environment:* This set of domestic factors includes the economic structure and processes, the social structure and processes as well as the cultural and ideological systems. For example, it stresses the importance of World Values Surveys or public opinion surveys for the analysis of the domestic political process;

*International environment:* Depending on the issue of interest, the international environment has more or less influence on the domestic political process. Domestic political processes can be significantly influenced by regional integration, trade, international conflicts and migration.

**Legitimacy:** This component analyses the acceptance of the political process, institutions and actors. Where social groups or regions consider this wanting, it will seriously affect the character and nature of the political processes. The framework distinguishes three broad types of legitimacy:

*Geographical legitimacy* (e.g. are their parts of the country that do not see the existing political institutions as legitimate);

*Constitutional legitimacy* (i.e. are the formal political institutions concerning the use, distribution and control of power perceived as being fair and appropriate);

*Political legitimacy* (e.g. the extent to which the population considers that the political institutions have been fairly applied, such as in free and fair elections).

**Influences, demands and oppositions (inputs i):** This component analyses how individuals, groups and organisations influence the political process by demanding or opposing demands. The framework distinguishes domestic actors (e.g. political parties, the media, patrons, sub-national governments, trade unions, caste movements, etc) and external actors (e.g. IFIs, donors, regional organisations, transnational corporations, etc).

**Supports and withdrawals (inputs ii):** This component analyses how individuals, groups and organisations support or withdraw support from the political process or political actors within this process (e.g. the ruling party or regime). The framework distinguishes domestic actors (e.g. citizens, the media, the military, business community, etc) and external actors (e.g. donors, political or military allies).

**Modes of inputs:** This component analyses how individuals, groups and organisations articulate, express and communicate their interests and influence (both demands and oppositions). The framework distinguishes domestic actors (e.g. use of media, political parties, petitions, demonstrations, strikes, riots, etc) and external actors (e.g. threats, conditionality, treaties, tariff policy, military force, support to electoral process, support of specific actors, etc).

**Gatekeepers of inputs:** This component analyses who are the individuals, groups and organisations that determine which issues, demands or expressions ‘get through’ into the policy arena and which do not (e.g. political parties in democracies or personal secretaries of presidents).

**Decision making power map:** This component analyses the relative political bargaining power of different political or politically influential actors. This sub-analysis seeks to map the distribution of power in a given decision-making process. It provides an overview of the field of political actors (e.g. legislature, executive, judicative, the military and security services, civil service and research institutes), the political arena (e.g. intra-party process or multi-stakeholder process) and the roles and relative power of the different actors (e.g. government lead agency vs. implementing agency).

**Lobbying:** This component analyses how lobby groups influence the decision-making process and shape the detail of policy. The framework distinguishes internal and external interest groups as well as legitimate and illegitimate interests. The lobby groups may be individuals, groups or organisations (e.g. patrons, ‘big men’, large companies; sub-national governments, think tanks, churches, labour unions, donor agencies).

**Decision making:** This component analyses how the formal and informal decision-making process takes place.

**Output:** This component analyses the outputs of the decision-making process (e.g. laws, regulations, contracts awarded and institutions established).

**Capacity and politics of implementation:** This component analyses how adopted policies are implemented on the ground. The framework distinguishes two main factors that drive or constrain policy implementation: the capacity of the public administration to implement the policy (e.g. its strength, human resources and reach) and its autonomy from political influence seeking to block or

slow down implementation (e.g. demands, pressure and threats from local or regional interest groups). It argues that policy implementation depends on the ‘politics of implementation’, that is a political process characterised by conflicts between policy makers and civil servants (i.e. principal-agent problems) as well as conflicts between different interest groups at national and sub-national levels.

**Feedback effects:** This component analyses the dynamics in the political process. The loop from the ‘outputs’ to the ‘inputs’ of the political process underlines that policymaking is a dynamic process of feedback and change in which different actors have varying degrees of political influence (i.e. power). Interest groups can withdraw or reinforce their support for a specific politician, party or government, depending on the degree of satisfaction with the decisions made.

**Comments: What are the strengths and weaknesses for sector-level policy analysis and management?**

**Strengths:**

- It helps to explain the political will for reform – or the lack thereof – as a function of the way in which the political processes work. Hence, politicians are seen as rational players and political institutions are seen as the rules and incentives governing the behaviour of politicians. Sector-level approaches could use this framework to better understand the sector-specific political institutions and incentives in various sectors.
- The framework combines many interesting aspects of the policy making and implementation process in a single framework. Thus, the legitimacy of the political system and policy outcomes, the lobbying of different interest groups in the decision making process and the politics of implementation can be seen as different aspects of one single political process. Sector-level approaches can use this framework to better understand the general decision making process in which the sector politics are embedded.

**Weaknesses:**

- The framework is very comprehensive and it would be very time-consuming to analyse all factors in detail that are referred to in the framework. In order to select the most important factors and focus the analysis on these factors, it would be very helpful, if the framework would provide more concrete theoretical and practical guidance on how the framework could be used in practice. For example, the framework cites structural features; the economic, social and cultural systems and ideologies, but does not explain how exactly these factors impact on the political process.
- The framework focuses more on policy analysis than on policy management. In consequence, there are no concrete operational implications. However, applied to a concrete problem in a specific sector and country context, the framework could help to identify concrete entry points for policy management.
- So far, no study based on this framework is publicly accessible.

**Key references:**

Leftwich, A. (2006) *From Drivers of Change to the Politics of Development: Refining the Analytical Framework to understand the politics of the places where we work*. Part 3: Final Report.

Leftwich, A. (2007) *From Drivers of Change to the Politics of Development: Refining the Analytical Framework to understand the politics of the places where we work*. Notes of Guidance for DFID Offices.

## 5 Theories that could help to take sector-level political economy approaches forward

### 5.1 How theories could take sector-level political economy approaches forward

Sector-level political economy approaches seek to better understand and influence political dynamics of policy change in specific sectors. This is a huge challenge – even in well-known country and sector contexts – and it requires profound knowledge of when, why and how political, economic and social change happens.

Rich academic knowledge in this field could rapidly and effectively help sector-level approaches to identify and influence political, economic and social structures, institutions, processes and actors that determine political dynamics of sector reforms. Many of these theories of change could provide or refine the theoretical and practical guidance needed to better understand, explain and, maybe, even predict processes of sector policy change in developing countries.

For example, the lack of criteria for the selection of actors that need to be included in an actor analysis is one of the frequently encountered weaknesses of political economy approaches. Most approaches suggest different types and groups of actors, but fall short of explaining why some actors must be analysed and why others are not relevant enough to be analysed in detail. Theories could help to identify key actors in political processes so that actors' analyses can be limited to a manageable number of the most relevant actors.

Therefore, this sourcebook intends to showcase a handful of recent theoretical approaches exploring and explaining various aspects of policy change. They comprise of theories developed in political science, economics and sociology. These theories could strengthen sector-level approaches' theoretical grounding; further clarify the interaction of actors and institutions; and, zero in on political actors who are 'relevant enough' to be covered in a study.

The following theoretical approaches could provide interesting additional theoretical grounding for the existing sector-level political economy approaches:

- Harold Lasswell's *policy cycle* approach seeks to identify underlying patterns of policy reforms by subdividing political processes into distinct stages (see Section 5.2).
- Douglas North's *theory of institutions and institutional change* explores roles of institutions and institutional change for economic performance by analysing interactions between formal and informal institutions and political, economic and social organisations (see Section 5.3).
- George Tsebelis' *theory of veto players* explores the political feasibility of proposed policy changes within a given political system by analysing political actors who must agree to policies or policy changes (see Section 5.4).
- Hans-Dieter Evers's *theory of strategic groups* explores socio-political change by analysing the rise and fall of groupings with collective political identities and agendas (see Section 5.5).

And there are many more interesting theories of change out there.<sup>27</sup> All these need to be adapted to specific requirements of sectoral change and be tested in the field.

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<sup>27</sup> For example, there are many theories on the role of elites (e.g. political, economic, cultural, religious elites), social classes (e.g. bourgeoisie, industrial proletariat, aristocrats), professional estates (e.g. civil servants, military, doctors, students) and interest groups (e.g. labour unions, employers' associations) in processes of political, economic and social change.

## 5.2 The policy cycle approach

### Conceptual approach: Why is this theory interesting for sector-level policy analysis?

In 1956, the political scientist Lasswell introduced the ‘policy cycle’ as a model of the policy process. He understood this policy cycle as a linear sequence of different stages of a political problem-solving process. According to Lasswell, each policy process could be presented and analysed on the basis of seven distinct stages: intelligence, promotion, prescription, invocation, application, termination and appraisal (see Lasswell 1956). Since then, the policy cycle model has been highly successful as a basic framework for the analysis of policy processes. According to Jann & Wegrich (2007:44), one of the major reasons for the success of the stages typology is its appeal as a ‘normative model for ideal-type, rational, evidence-based policy making’. The policy cycle could help to analytically subdivide sector policy reform processes into stages and to design sector support programmes according to the specific needs in these stages of reform.

### Methodology: What are the analytical building blocks of this theory?

Since the late 1950s, the stages and the sequence of these stages have changed, but the basic principles remained the same. Today, the policy process is often described as a sequence of the following stages: agenda setting, policy formulation, decision making, implementation and evaluation followed by termination or redefinition (see Jann & Wegrich 2007:43ff).

1. **Agenda setting:** This stage describes the first stage of the policy cycle: a societal problem becomes a political issue. A societal problem becomes a political issue, when it is defined and recognised as a problem and when there is sufficient public interest in solving the problem. Once the problem is on the political agenda, it becomes a political issue and will be addressed by political decision makers.
2. **Policy formulation and decision making:** In this stage, political decision makers formulate alternative policies to solve the defined problem. Policy formulation includes the definition of objectives. Policy adoption – or decision making – determines which of the alternative policy options or policy changes will be implemented. Policy formulation and policy adoption can be subdivided into two distinct stages, when there are clearly separated policy alternatives.
3. **Implementation:** This stage comprises of the execution and enforcement of a new policy or policy change by the responsible organisations. Policy implementation is critical, since it determines whether or not adopted policies will translate into real changes that are expected to solve the identified problem.
4. **Evaluation – termination or redefinition:** This stage represents the last stage in the policy cycle: the evaluation seeks to find out whether the policy change has successfully solved the problem or whether the problem could not be solved and need further political action. In the first case, the policy cycle can be terminated. In the latter, the remaining problem needs to be redefined as a political problem that will be addressed in a new policy cycle.

### Comments: How could this theory support sector-level policy analysis and management?

- The policy cycle can serve as a simplified model to analyse complex and contingent sector reform processes in developing countries. This approach allows for analysing specific needs, opportunities and challenges in specific stages of the sector reform process. It must be noted, however, that this approach understands policy making and implementation processes as designed to solve problems and measure reform success against achievement of intended reform objectives. This understanding can be different in different country contexts. This approach can be very useful for policy analysis to find out where sector reform stands, what key features of the present stage are and how the next stage can be prepared.
- Policy management can tailor support strategies to address specific needs, opportunities and constraints within different stages of the policy cycle. For example, development agencies can

assist domestic actors in setting a societal problem on the political agenda or in implementing an adopted sector reform.

### **Key references:**

Lasswell, H. (1956) *The Decision Process: Seven Categories of Functional Analysis*. College Park: University of Maryland Press.

Jann, W. and K. Wegrich (2007) 'Theories of the Policy Cycle', in: Fischer, F.; Miller, G. and M. Sidney (eds.): *Handbook of Public Policy Analysis: Theory, Politics, and Methods*. CRC Press.

## **5.3 Theory of institutions and institutional change**

### **Conceptual approach: Why is this theory interesting for sector-level policy analysis?**

The economic historian North (1990) analysed economic history and developed the 'theory of institutions and institutional change'. This theory seeks to explain the radically different performance of economies over long periods of time (North 1990:7). To do so, North examines the nature of institutions, the consequences of institutions for economic performance and the role of institutional change in economic development. This theory could help to analyse and influence the key institutions that shape the performance and development in specific sectors and the process of institutional change in these sectors.

### **Methodology: What are the analytical building blocks of this theory?**

**Institutions as the 'rules of the game':** According to North (1990:3), institutions are the 'rules of the game in a society or, more formally, are the humanly devised constraints that shape human interaction'. In other words, institutions determine what individuals are permitted to do and under what conditions they are permitted to do so. For example, they provide guidance on how to drive an automobile in the US or how to form a business in Bangladesh. The major role of institutions is to reduce uncertainty by providing a stable structure for everyday life (see North 1990:3). They are, therefore, 'the framework within which human interaction takes place' (North 1990:4). Institutions can be both formal and informal. Laws and regulations are formal institutions and conventions and codes of behaviour are informal institutions (see North 1990:4). Institutions can be actively created or they can simply evolve over time (see North 1990:4). The purpose of the rules is to define the way the game is played. According to North (1990:4), institutions are 'perfectly analogous to the rules of the game in a competitive team sport.' In other words, institutions comprise formal written rules, such as specific rules of the game, and informal unwritten codes of conduct, such as the principle of good sportsmanship (see North 1990:4). As in team sports, some players sometimes violate rules, therefore, according to North (1990:4), the character of the game is mainly shaped by the type and effectiveness of monitoring and the enforcement of punishments in the case of violations. Codes of conduct, such as good sportsmanship, can constrain players, even if they could get away with successful violations (see North 1990:4).

**Organisations as the 'players':** North makes a clear distinction between institutions and organisations. According to North (1990:5), organisations are 'groups of individuals bound by some common purpose to achieve objectives'. Following the sports analogy, institutions are the rules of the game that define the way the game is played and organisations are the players trying to win the game. The objective of each organisation or 'team' is to win the game under the given rules – by a combination of skills, strategy and coordination, sometimes by fair means and sometimes by foul means (see North 1990:4f). Organisations include political bodies (political parties, the Parliament, city councils, regulatory agencies, etc), economic bodies (firms, trade unions, farms, cooperatives, etc), social bodies (churches, clubs, associations) and educational bodies (schools, universities, etc) (see North 1990:5).

**Institutional change as the interaction of institutions and organisations:** According to North (1990:6), institutional change is a ‘complicated process because the changes at the margin can be a consequence of changes in rules, in informal constraints, and in kinds and effectiveness of enforcement’. Institutional change is shaped by interactions between institutions and organisations. The existing institutional framework influences what organisations come into existence and how they evolve. Organisations are ‘created with purposive intent in consequence of the opportunity set resulting from the existing set of constraints’ (North 1990:5). Organisations try to create change and dissolve institutions according to their needs (see North 1995:5). ‘Incremental change comes from the perceptions of the entrepreneurs in political and economic organizations that they could do better by altering the existing institutional framework at some margin. But the perceptions crucially depend on both the information that the entrepreneurs receive and the way they process that information’ (North 1990:8). Thus, entrepreneurs and organisations can be ‘agents of institutional change’ (North 1990:5). Institutions typically change incrementally rather than in discontinuous fashion (see North 1990:6). How and why they change incrementally and why even abrupt changes are never completely discontinuous result from embedded informal constraints in societies (see North 1990:6). ‘Although formal rules may change overnight as a result of political or judicial decisions, informal constraints embodied in customs, traditions, and codes of conduct are much more impervious to deliberate politics (North 1990:6).

**Comments: How could this theory support sector-level policy analysis and management?**

- It introduces a clear distinction between institutions as the ‘rules of the game’ and organisations as the ‘players’. This distinction sharpens the terminology used in policy analysis and management by restricting the notion ‘institution’ to rules. Following this understanding, so-called public or financial ‘institutions’, for example, are in fact ‘organisations’. This distinction helps sector-level policy analysis to focus institutional analysis on key features of the rules (e.g. formal laws or social norms) and actor or organisational analysis on key features of the players (e.g. strategy, resources or knowledge of the rules).
- It explains institutional change as interactions of institutions and organisations over time. This interaction can be characterised as follows: institutions are rigid in the short-run (i.e. institutions shape the players’ room for manoeuvre in the short-run) and are flexible in the long-run (i.e. actors shape institutions in the long-run). Institutional change can have many different causes: changes in formal rules, changes in informal norms or changes in the effectiveness of enforcement. As a result, policy analysis could use this approach to better understand how sector organisations and sector institutions interact and policy management could seek to change the rules, norms or the enforcement of rules in a specific sector.
- It helps to gain a better understanding of and make better use of information, knowledge and perception in sector reforms. According to this theory, policy change can happen, when perception of so-called ‘entrepreneurs’ in political and economic organisations changes regarding incentive structures associated with a given institutional arrangement. Hence, access to information and knowledge can change perceptions and, thus, entrepreneurs and organisations can become agents of institutional change. Sector-level analysis and management could seek to change perceptions of powerful entrepreneurs by providing information and knowledge on existing incentive structures in the sector.

**Key references:**

North, D. (1990) *Institutions, Institutional Change and Economic Performance*. Cambridge: Cambridge University Press.

## 5.4 Veto player approach

**Conceptual approach: Why is this theory interesting for sector-level policy analysis?**

The political scientist Tsebelis (2002) developed the ‘veto player’ approach to analyse, classify and compare different political systems with regarding to the probability of policy change or policy stability,

respectively. Tsebelis seeks to better understand and predict political feasibility of policy reforms within a given political system. In contrast to other political theories, Tsebelis does not compare the regime type, legislature type or party system to explain policy outcomes. Instead, Tsebelis argues that policy change can only be successful, when the key players in the political system agree to change the status quo. This is, because a number of political actors *must* agree with new policies or changes of existing policies. These actors are called ‘veto players’, since they can effectively veto a proposed new policy or policy change. Each political system and country has a specific ‘configuration’ of veto players. These various configurations limit the set of policy outcomes that could possibly replace the status quo. Proposed policies and policy changes cannot be implemented, if they are not accepted by *all* the veto players in a country. Therefore, it is critical to identify all veto players of a specific configuration. The veto player approach can help identify political actors that must agree with sector policy reform processes.

### **Methodology: What are the analytical building blocks of this theory?**

**Veto players:** According to Tsebelis (2002:19), veto players are ‘individual or collective actors whose agreement is necessary for a change of the status quo’. Every single of these actors can block policy change. Tsebelis distinguishes three types of veto players:

- *Institutional veto players:* Institutional veto players are veto players whose rights are enshrined in the constitution (e.g. parliamentary chambers must pass new laws). The number of institutional veto players is expected to be constant but their properties may change (see Tsebelis 2002:79).
- *Partisan veto players:* In situations, where there are changing constellations within institutional veto players, partisan veto players de facto replace the institutional veto players (e.g. coalition in government or strong opposition in Parliament). Partisan veto players are veto players who are generated inside institutional veto players by the political game. Both the number and the properties of partisan veto players change over time (see Tsebelis 2002:79).
- *Other veto players:* In addition, other veto players can be found in specific sector policy or decision making settings. For example, labour unions can act as veto players in labour policy changes and the population can act as a veto player in referenda.

Tsebelis assumes that veto players have specific policy preferences and want to maximise their utility by only accepting policy proposals which are closer to their most preferred policy compared to the status quo. As a result, a proposed policy change can only be successful, when all veto players think they can get closer to their ideal policy through this policy change.

**Probability of policy change or policy stability:** According to Tsebelis (2002:19), the probability of policy change or policy stability depends on the specific configuration of veto players in a given political setting. Three features are particularly important for the success of policy reforms:

- *Number of veto players:* The higher the number of veto players, the more difficult it gets to negotiate a policy change that suits all veto players and is therefore accepted by all veto players.
- *Ideological distance between the veto players:* The greater the ideological or programmatic distance among the veto players, the more difficult it gets to find a common policy position.
- *Internal coherence of collective veto players:* In the case of collective veto players, such as the parliament, the internal cohesion plays an important role regarding the probability of policy change.

According to the veto player approach, policy change is the more likely under the following conditions:

- Policy change is the more likely, the smaller the number of veto players involved.
- Policy change is the more likely, the smaller the ideological distance between the veto players.
- Policy change is the more likely, the less cohesive the collective veto player deciding by single majority. Policy change is the more likely, the more cohesive the collective veto player deciding by qualified majority (Tsebelis 2002:62).

### **Comments: How could this theory support sector-level policy analysis and management?**

- It provides concrete theoretical and practical guidance on which actors should be analysed in detail in an actor analysis. It helps to identify those actors that can effectively prevent, stop or derail sector reform and, therefore, must be considered in actor analysis and management.
- It provides concrete theoretical and practical guidance on how to assess and improve the political viability of sector reforms. According to this theory, the political viability of sector reforms can quickly be assessed by looking at the number and configuration of veto players and their ideologies and political programmes. Policy change is possible, when there is common ground – that is when the veto players can identify and negotiate a common policy position that can be accepted by all of them. Policy analysis and management can use this theory to rapidly assess the probability of reform and to facilitate the process of adjusting the sector policy content so that it can be supported by all veto players.
- It sensitizes policy analysis and management for so-called ‘other veto players’ that are critical for successful sector reform. For example, traditional authorities, Oligarchs, religious leaders, landlords and labour unions can de facto act as economic, social or religious veto players in specific sector reform processes. Without their consent, sector reforms cannot be implemented successfully. Therefore, policy analysis and management could use this theory to identify and engage with those actors that have a legal, political or societal veto position in a specific sector.

### **Key references:**

Tsebelis, G. (2002) *Veto Players: How Political Institutions Work*. Princeton, N.J.: Princeton University Press.

## **5.5 The theory of strategic groups**

### **Conceptual approach: Why is this theory interesting for sector-level policy analysis?**

The sociological ‘theory of strategic groups’ seeks to analyse the dynamic distribution and redistribution of power between competing dominant social groups in a society. As a theory of rational choice, it assumes that human actions are primarily governed by an interest in maximising material and immaterial gains and profits (see Evers & Solvay 2009:1). The theory is based on a market model, in which different strategic groups compete for access to or control over scarce resources. However, instead of striving for immediate profit, these groups strive for institutional change and aim at ‘creating social, political and economic structures and institutions that enhance the chances to appropriate resources’ (see Evers & Solvay 2009:2). As a result, political, social and economic change takes place, when new strategic groups are increasing their share of scarce resources. These new dominant strategic groups determine new patterns of legitimacy; political rules of the game; and political culture (see Evers & Solvay 2009:4). Many political and social conflicts in societies can be explained by the competition between established and emerging strategic groups (see Evers & Solvay 2009:5).

### **Methodology: What are the analytical building blocks of this theory?**

**Strategic groups:** According to Evers & Solvay (2009:2), strategic groups are neither elites nor social classes: ‘They cut across hierarchies, its members do not carry cards or identification tags, and they may follow different lifestyles and follow different beliefs. They are, however, united by one common goal: to secure present and future chances to gain access to resources; to share chances of appropriation of resources and their distribution’. Strategic groups are strategic in two ways. Firstly, they are of strategic importance because they are key actors in political processes, conflict situations, reforms or revolutions. Secondly, they are strategic because they develop their own strategies and actively promote their political, economic and social goals (see Evers & Solvay 2009:3). Strategic groups ‘support long-term strategies to secure the appropriation of resources by shaping or

structuring institutions' (Evers & Solvay 2009:6). The following groups can, for example, act as strategic groups:

- *Government/bureaucracy*: government employees and civil servants;
- *Military*: members of the armed forces, their families and their suppliers of goods and services;
- *Professionals*: doctors, nurses, pharmaceutical industry;
- *Intellectuals*: teachers, professors, journalists, students, poets;
- *Big business*: business men, managers, employees of corporations, workers in big industry.

**Coalitions of strategic groups:** In case there are more than two strategic groups, some groups will seek to build coalitions with other groups. These coalitions – and the political systems they dominate – are particularly stable, when strategic groups are seeking to control different resources. For example, an alliance between feudal nobility and clergy during the European Middle Ages proved to be particularly stable (see Evers & Solvay 2009:5,7).

**Changes of strategic groups:** Strategic group analysis requires intensive study of historical data, statements of strategic groups and statistical time series. Time series analysis can provide information on the relative dominance of strategic groups over time. Manpower – the number of members or followers of a strategic group – is one major source of power for these groups. In democracies, for example, regular elections indicate how powerful competing political parties are. Time series of election results demonstrate relative power of different political parties over time (see Evers & Solvay 2009:10).

**Comments: How could this theory support sector-level policy analysis and management?**

This theory explains political change by the competition between established and emerging strategic groups. Political change happens, when new strategic groups are becoming dominant or when strategic groups build stable coalitions to become more powerful. The members of these strategic groups collectively seek to dominate and shape the institutional arrangement and, thus, to change the incentive structures in their favour. Policy analysis could use this theory to analyse the rise and fall of strategic groups and their relative influence on shaping the sector-level institutions and incentives. Policy management could seek to facilitate coalition building between strategic groups supporting pro-poor sector reforms.

**Key references:**

Evers, H.D. and Solvay, G. (2009) *Strategic Group Analysis*. ZEF Working Paper Series No. 34. Bonn: Center for Development Research.

## 6 The way forward: 10 recommendations for taking sector-level political economy approaches forward

There are many ways in which sector-level political economy approaches could be taken forward. Based on the review of the approaches, frameworks and studies presented in this sourcebook, the following 10 recommendations synthesise some of the key issues and provide sources which provide further information on these issues:

1. **Clearly defining the purpose of the sector-level political economy analysis:** In order to maximise the intended impact of a sector policy analysis, the purpose of the analysis should be clearly defined at the beginning (see DFID 2005a; Sida 2006; European Commission 2008). For example, policy analyses could seek to deepen understanding, create scientific evidence, facilitate dialogue, influence decision making processes or prepare programming decisions. Moreover, the target audience, format, language, dissemination strategy and further use of the analysis should be sufficiently clear so that the right analytical approach can be chosen. The relevance of the analysis is particularly high when it addresses a widely perceived societal problem, a binding constraint in sector development or when the results are released at the right point in time. Therefore, the purpose of the analysis also affects the timing and use of the analysis.
2. **Thinking policy analysis and policy management together from the beginning:** Most existing political economy approaches focus on policy analysis and, therefore, provide only very general operational implications. As a result, recommendations for policy management – and management-oriented policy analysis – represent a major gap in existing approaches. Policy analysis could provide more strategic and concrete recommendations for policy management, if analysis and management would be better integrated throughout the process (see Young 2004; World Bank 2008b; European Commission 2008). This means, for example, that the focus, scope, format and kind of language of policy analysis should be tailored to the intended use of the results of the analysis. New approaches should also seek to provide theoretical and practical guidance on how to translate analytical findings into the design of appropriate public policies and strategic support to policy reform (e.g. how to use existing and new aid instruments to support policy changes). Therefore, the combination of diagnostic and action frameworks seems to be particularly promising (see World Bank 2008b; European Commission 2008).
3. **Focusing on domestic political decision making and implementation processes:** These are key processes that determine the design, implementation and evaluation of sector policy reforms – and whether or not reforms will be successful. Therefore, policy analysis needs to develop a profound understanding of these processes and policy management should seek to influence these processes directly or indirectly. Sector-level political economy approaches should further explore how these processes function, how different political actors influence them and their policy outcomes and how actors are influenced by political institutions, incentives and behaviour of other actors. The policy cycle approach could help to identify the main stages of the reform process and to tailor analysis and action to the specific opportunities and challenges of these stages in the reform process (see Buse et al., forthcoming). Policy management could seek to stimulate, facilitate and sustain broad-based policy dialogue and discussion or to strengthen the influence of specific actors (see DFID 2004; World Bank 2009). Thus, one-off policy analysis turns into a continuous process (see Sida 2006; European Commission 2008).
4. **Understanding and strengthening the political will for sector reform:** Sector-level political economy approaches should seek to understand the ‘political will’ of the political actors involved in sector reform by revealing the underlying motivations, incentives and constraints (see DFID 2005a; World Bank 2008b; European Commission 2008). According to Leftwich (2006), political will is a function of the way the political processes work. Therefore, policy analyses need to understand domestic political structures, processes, institutions and incentives – as well as constraints and disincentives – to explain political support for sector reforms from within given country and sector context. Policy management should seek to create or strengthen political support for sector reforms

under the existing political conditions (see European Commission 2008). For example, development partners could make support for sector reform a ‘vote winner’ by setting issues on the political agenda, informing and educating the electorate or by publishing public opinion polls and user satisfaction surveys. Based on a clear understanding of the given political context, policy analysis could prepare alternative or second best policy options that are politically viable under given political circumstances and policy management could create a political constituency for policy reform.

5. **Linking the dynamics within, between and beyond sectors:** Sector-level political economy approaches need to understand and influence all structures, institutions, processes and actors impacting on sector development. These can be within sectors, but could also be cross-sectoral, local, national or international. Therefore, sector analysis should not exclusively focus on the sector itself. For example, the national decision making process is the same for reforms in all policy areas. Moreover, the political dynamics in sectors can spill over into other sectors (see World Bank 2008b; Stein et al. 2005). In addition, the analysis needs to take into account sector-specific characteristics, which influence the political dynamics and the feasibility of sector reforms (see Dinar et al. 1998; Strand 1998; Stein et al. 2005; Plummer & Slaymaker 2007; Buse et al., forthcoming). For example, water supply is characterised by a natural monopoly, high capital costs and ideological debates on water tariffs. Moreover, new approaches should address the recurrent key features and challenges in specific sectors and sector reforms. For example, pension reforms require a long-term time horizon and education reforms need to work with teachers’ unions (see Stein et al. 2005).
6. **Strengthening capacities for prospective policy analysis of sector reforms:** Prospective policy analysis can help to identify the right timing, packaging, sequencing and framing of sector reforms and can help to build coalitions for reform in time. Firstly, there are times when sector reforms are more likely than in others. These ‘windows of opportunity’ for change can open up slowly and over time or suddenly and unexpectedly. Medium and long-term ‘trends’ can indicate the increasing pressure for reform and ‘triggers’ can translate this increased pressure into political action. Secondly, the assessment of distributional impacts of proposed sector policies and policy changes can help to prevent unintended consequences, develop politically viable policy options and to prevent resistance to sector reform (see World Bank 2003; 2008b; 2009). Thirdly, forward looking studies can help develop an appropriate frame and political communication strategy that generates widespread support for proposed sector reforms among key decision makers and affected populations (see Buse et al., forthcoming). The combination of capacities for sector-specific and governance-specific analysis and management helps to address governance challenges in sectors (see European Commission 2008).
7. **Making results public and actively feeding findings into domestic decision making process:** Whenever possible, sector-level political economy approaches, frameworks and studies should be made publicly accessible (see Sida 2006; European Commission 2008). Firstly, policy analysis has the biggest impact on sector reforms and can stimulate wider debate on alternative policy options, when the findings are available at the right time of the decision making process and when tailored versions of the analysis are produced for different audiences (see DFID 2005a; World Bank 2003; World Bank 2009). Secondly, development partners and research institutes can only learn from each other, develop joint approaches and take the existing sector-level approaches forward, when these are publicly accessible. By making approaches, frameworks and studies available, development partners and research institutes could build on the existing sector analyses, prevent the duplication of similar analyses, fill existing gaps or reveal the issues that could be explored in detail by future analyses (see Sida 2006).
8. **Building and strengthening domestic capacities for analysing sector reforms:** Analysing the structures, institutions, processes and actors that determine the political dynamics of sector reforms requires deep knowledge and understanding of the country and sector context. Therefore, sector analysis should be carried out by local experts and researchers to the largest extent possible

(see Sida 2006). Local experts and researchers could also ensure that new sector analyses always build on what is already there, but only available in local languages (see European Commission 2008). Building and strengthening the domestic capacity to analyse and debate the needs, opportunities and constraints in specific sectors also creates more domestic ownership for the analytical findings, the policy implications and reform implementation. For example, government agencies, steering commissions for reforms, universities, think tanks and the media could be supported to develop the needed analytical capacities (see European Commission 2008).

9. **Using a positive language and supporting inclusive sector reform processes:** Existing approaches tend to see politics either as a process which is difficult to understand or as a risk. Consequently, many approaches tend to use a rather negative language (e.g. ‘black box’, ‘lack of political will’ or ‘political risk’). This, however, does not help to win over undecided or lightly opposing interest groups in sector reform processes. Since an overall majority of actors have legitimate interests and acts perfectly rational within their specific logic, approaches can be more constructive, when they use a language that acknowledges the legitimacy of the interest groups’ positions and the rationality of their behaviour. By using a positive language, sector-level political economy approaches can help transforming potential opponents into active supporters or latent risks into real opportunities for change (see World Bank 2008b). Moreover, political actors want to be taken seriously, want to be listened to and want policies to respond to their concerns (see World Bank 2008b). Therefore, policy analysis and management should ensure a transparent and open decision-making process in which all actors – both ‘winners’ and ‘losers’ – can voice their concerns and policies need to seek to respond to the legitimate concerns of the losers and compensate them for unbearable losses (see World Bank 2008a, 2008b, 2009).
10. **Facilitating coalitions for sector policy change:** Successful pro-poor sector reforms require powerful coalitions for change and broad political and popular support. Therefore, reforms are more likely, when they have the backing of politically powerful actors, such as the non-poor, empowered poor or a coalition of poor and non-poor. Sector-level political economy approaches to policy management could facilitate the building of politically powerful coalitions for pro-poor sector reforms (see Evers & Solvay 2009). These coalitions could include political, economic and social actors, such as political parties, labour unions and religious leaders (see Farrington & Saasa 2002). For example, development partners could support multi-stakeholder fora to create a national consensus for reform. To gain support from these key actors, sector policies need to be universal (rather than exclusively pro-poor) and need to be ‘framed’ according to the common interests of the reform supporters. For example, the urban middle class is likely to support poverty reduction, when it improves the quality of life due to reduced crime and disease spillovers (e.g. cholera outbreaks). Thus, policies or policy changes primarily benefitting the poor can be backed by strong political majority of poor and non-poor people.

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