

Helpdesk Research Report: Political Economy Methodologies

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Query: Please identify political economy methodologies that could be used in the context of fragile states.

Enquirer: DFID Afghanistan

Contents

1. **Overview and Definitions**
2. **Key Documents**
 - Institutional Economics
 - New Political Economy
 - Drivers of Change
 - Sustainable Livelihoods Approach
 - Early Warning Models and Conflict Analysis

1. Overview and Definitions

“Political economy analysis is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time. When applied to situations of conflict and crisis, political economy analysis seeks to understand both the political and the economic aspects of conflict, and how these combine to affect patterns of power and vulnerability. According to a political economy approach, vulnerability should be understood in terms of powerlessness rather than simply material need. Vulnerability and power are therefore analysed as a political and economic process, in terms, for instance, of neglect, exclusion or exploitation, in which a variety of groups and actors play a part (Le Billon, 2000)” (p.3 of Collinson’s ‘Power, Livelihoods and Conflict: Cases Studies Political Economy Analysis for Humanitarian Action’: see Key Documents below).

This query response looks at various political economy approaches and methodologies, including new political economy; institutional economics; drivers of change/politics of development; sustainable livelihoods; and early warning models and conflict analysis. While not all are designed specifically for the fragile state contexts, the concepts and approaches are applicable to many differing situations.

Traditional concepts of political economy have focused on top down, macro-level approaches that examine institutions and its rules. This institutional analysis is premised on the belief that good political and economic institutions are central to the promotion of economic development and the welfare of society. More recently, ‘institutional economics’ and other types of political economy methodologies have emphasised the need for a bottom up, micro-level, ‘game theory’ approach that looks at individual interactions and individual incentives to follow (or not follow) institutional rules – in order to understand why and how institutions persist and change. This is of interest in fragile states contexts, where institutions are often forced to undergo rapid and significant change, especially where there is regime change – as in the case of Afghanistan. Both these macro and micro approaches have been incorporated into DFID’s ‘drivers of change/politics of development’ framework. The ‘sustainable livelihoods’ approach also combines macro and micro

approaches, but focuses more on observances of people's day to day lives and livelihoods; and their coping strategies in crisis and conflict situations.

The importance of understanding political processes and political systems is also central to any political economy analysis. New political economy and drivers of change/politics of development frameworks incorporate inter-disciplinary analysis – examining how economic, social and cultural systems interact with the political system and how their interactions impact people's lives on the ground. They also look at competing rules of games in formal and informal institutions; shifting coalitions that contribute to or prevent state collapse; state capacity, authority and legitimacy; and how rent seeking and patronage can at times prevent violent conflict and contribute to state stability. These factors are particularly important in analysing fragile states, where state capacity is often weak and informal institutions and practices prevalent.

2. Key Documents

Institutional Economics

- Greif, A., 2006, Chapter 1: Introduction in 'Institutions and the Path to the Modern Economy: Lessons from Medieval Trade', Cambridge University Press: http://www-econ.stanford.edu/faculty/Greif_Institutions/0%201%20Chapter%201%20Introduction.pdf

This book, outlined in Chapter 1, stresses the importance of good economic and political institutions for promoting development and the welfare of a society. As such, it advocates for institutional analysis to provide insights into why some countries have a welfare-enhancing political order and others do not. The book studies institutions at the level of the interacting individual; and uses game theory to understand how institutionalised rules are followed even in the absence of external enforcement. It stresses the importance of understanding individual motivations and incentives to follow such rules, which it claims economic neo-institutionalism ignores. The latter adopts a top-down "institutions-as-rules" framework instead, which focuses on political institutions and organisations. The book draws on historical, context-specific case studies to understand the dynamics of institutions - how they originate; how they influence individual behaviour; and how they persist and change.

- Johnson, S. and Subramanian, A., 2005, 'Aid, Governance, and the Political Economy: Growth and Institutions', Paper Prepared for the Seminar on Foreign Aid and Macroeconomic Management, 14-15 March, Maputo: <http://www.imf.org/external/np/seminars/eng/2005/famm/pdf/johnso.pdf>

This paper discusses the connection between good governance and growth. It looks at relevant economic and political institutions and the relationship between them. It notes that although it is possible for institutions to change, it is difficult to determine how to promote such change. Sometimes it happens suddenly with the collapse of the previous regime, for example in Afghanistan. The paper stresses that institutional change is a local matter and that outsiders can rarely have a positive effect. The Appendix on 'Measuring Economic Institutions' provides a brief overview of indicators and conceptual issues involved in measuring economic and political institutions.

New Political Economy

- Di John, J., 2008, 'Conceptualising the Causes and Consequences of Failed States: A Critical Review of the Literature', DRAFT, Background Paper for the Crisis States Research Centre, London School of Economics, London

This article surveys literature on failed states and provides a political economy analytical approach that goes beyond traditional rentier state theories and functionalist theories. Rentier state theories look at how inefficient institutions hinder growth. Functionalist theories of the state look at "how elites in actually existing political systems legitimate rule, accumulate capital and maintain a semblance of political stability in the context of underdevelopment" (p.24). The article critiques both these theories for the assumption that leaders in developing states only have

predatory, and not developmental aims; and for their neglect of political processes through which leaders gain power, which limits an understanding of motivations. Section 4 discusses the alternative for researching state capacity and offers several useful concepts to analyse the political economy of conflict in late developers. They are:

- Institutional multiplicity: “Institutional multiplicity is a situation in which different sets of rules of the game, often contradictory, coexist in the same territory ... In terms of analysing the state, institutional arrangements encompass both formal and informal rules governing the behaviour of those who occupy positions within the state as well as those non-state actors that are co-opted/contracted by the state or rivals to the state in fulfilling the functions ascribed to the state” (p. 36).
- State capacity and capability: “In analysing the performance of the subsystems of the state and among non-state rivals, it is important to examine the *evolution of capacity* – the abilities and skills of personnel and the organisational culture within the subsystems of the state” (p. 36).
- Influencing or rent-seeking: “It is useful to consider that in post-war and poor economies there are multiple mechanisms that link state and society. In adapting Weber’s ideas on economic sociology, there are several competing mechanisms through which influencing, or rent-seeking, activities occur” (p. 37).
- Coalitional analysis: This is “concerned with the ways in which shifting coalitions of power contribute to state collapse; are forged in order to prevent state collapse; and emerge as a result of state collapse and war” (p. 37).
- Divisibility and Boundary Activation: “*Divisibility* refers to the extent to which the conflict over a right is a question of ‘more or less’ (such as in the capital-labour struggle) as opposed to ‘all-or nothing’” (p. 39).
- Patterns of Patronage and State Resilience: “One line of research worth exploring is to systematically investigate the *extent* to which centralised patronage (and corruption) contributes to *state resilience*, that is, the ability of states/polities to withstand and/or prevent large-scale and even violent political challenges to public authority ... A second line of inquiry would be to establish *how* centralised rule and patronage is maintained ... A third line of inquiry would be to explain *why* centralised patronage and rule contributes to state resilience” (p. 42-43).

Drivers of Change

- 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 and Notes of Guidance for DFID Offices

These papers outline the Drivers of Change/Politics of Development framework, designed to assist donors in understanding the places in which they work. The analytical framework tracks political processes and is based on the assumption that political systems allow one to identify and trace the dynamics of change or resistance within and beyond it. They stress that developmental outcomes are politically determined. It is necessary to understand how political systems are implicated in and influenced by wider economic, social and cultural systems and from which agents emerge with support for and opposition to the system; and how political processes generate different outcomes. They note that politics must be understood at two levels: institutions – the rules of the game that govern and shape political life; and games – the politics and competitive interaction that takes place within such rules. Pages 20-21 of the ‘Part 3: Final Report’ provide diagrams of the major elements in the system to assist with such analysis.

Sustainable Livelihoods Approach

- Collinson, S. (ed.), 2003, ‘Power, Livelihoods and Conflict: Case Studies in Political Economy Analysis for Humanitarian Action’, Report 13, Overseas Development Institute, Humanitarian Policy Group, London:
<http://www.odi.org.uk/hpg/papers/hpgreport13.pdf>

This report documents the findings of a study on the application of political economy analysis to humanitarian programming in complex environments. It centres on four case studies from 2001-

2002: Afghanistan, eastern DRC, Sierra Leone and Casamance in Senegal. The Executive Summary and Introduction provide a very useful overview of political economy analysis. The report profiles two analytical approaches: the commodity chain approach and the livelihoods approach. The former focuses on who controls commodities and exchange at particular levels; it identifies power relations, governance structures and exchange relationships within commercial networks. The livelihoods approach is cross-sectoral and considers economic, political, social and cultural factors that affect people's lives and livelihoods from local up to national and international levels. This approach can complement conventional top-down political economy analysis; and is a safe way to investigate sensitive issues in insecure environments. Chapter 5 includes a case study of Afghanistan. The report notes the need to analyse how macro-level political and economic processes interact with micro-level coping and survival strategies; as there has been limited understanding of this interaction in Afghanistan.

There is also a prior report available from the ODI website:

- Collinson, S., 2002, 'Politically Informed Programming: Using a Political Economy Approach', Paper 41, Overseas Development Institute, Humanitarian Policy Group, London: <http://www.odihpn.org/documents/networkpaper041.pdf>

Early Warning Models and Conflict Analysis

- Baker, P. H., 2003, 'Conflict Resolution: A Methodology for Assessing Internal Collapse and Recovery' in Pumphrey, C. and Schwartz-Barcott (Hg.), R., 2003, *Armed Conflict in Africa*, Triangle Institute for Strategic Studies/The Scarecrow Press, Lanham, MD and Oxford: <http://www.fundforpeace.org/publications/reports/methodology-chapter.pdf>

This paper discusses briefly the early warning model set up by the Fund for Peace to help anticipate and assess countries at risk of internal conflict and state collapse. The model draws on qualitative and quantitative evidence; relies on methodologies from the sciences and humanities; and highlights the importance of political legitimacy. The paper stresses the importance of detecting signs of state decay. In order to achieve this, the model adopts a diagnosis methodology, similar to the field of medicine and monitors various social, economic, and political/military indicators of state collapse (see pp. 9-10). The last part of the paper applies this model to the African context.

- Blum, A., 2005, 'The Futures of Conflict: Exploring the Use of Comparative Scenarios in Track II Peacebuilding' *International Studies Perspectives*, vol. 6, no. 3, pp. 342-358: <http://www.cidcm.umd.edu/cases/cases.pdf>

This paper discusses the process of conducting Conflict Analysis through the Structured Evaluation of Scenarios (CASES). It draws on data from the Minorities at Risk (MAR) project, which monitors and analyses the status and conflicts of politically active communal groups. It then identifies comparable case studies that can be used to represent different possible future scenarios for the subject case. In this paper, the Kurds are the subject case and the comparison cases are the Palestinians in Israel Occupied Territories, Tibetans in China, Basques in Spain, Québécois in Canada, and Azerbaijanis in Iran. The author asserts that CASES adds more to traditional early warning systems that operate in a binary fashion (identifying conflict or no conflict). CASES allows analysts to devise peacebuilding strategies through evaluating the differing cases/scenarios; it also allows for lessons to be learned from similar conflicts elsewhere.

- Carment, D. et al., 2006, 'Assessing the Circumstances and Forms of Canada's Involvement in Fragile States: Towards a Methodology of Relevance and Impact', *Country Indicators for Foreign Policy (CIFP)*, Carleton University, Ottawa: <http://www.carleton.ca/cifp/app/serve.php/1142.pdf>

This paper provides a model for a relevance and impact assessment in fragile states, which can be used to monitor and forecast failed/fragile states (to decide whether to intervene), to help develop policies for these states, as well as to monitor and evaluate subsequent interventions. Table 1 (p. 6) provides a list of primary and secondary consequences of state failure and fragility based on governance, economy, security, crime, human development, demography, and

environment indicators. Table A2 in the appendix provides a list of risks and opportunities for intervention in fragile states.

- Switzerland Federal Department of Foreign Affairs, 2007, 'The Fragile States Debate: Considering Ways and Means to Achieve Stronger Statehood', *Politorbis Magazine*, Switzerland Federal Department of Foreign Affairs, Geneva:
<http://www.carleton.ca/cifp/docs/Politorbis.pdf>

This issue focuses on fragile states; of particular relevance to this query is the contribution by David Carment, 'Assessing Fragility: Theory, Evidence and Policy'. The article is based on the Country Indicators for Foreign Policy (CIFP)'s fragile and failing states project, designed to help the development community identify, assess and monitor fragile states. The CIFP fragility index examines a state's degree of authority, legitimacy and capacity and considers a weakness in any one to impact overall fragility. The CIFP methodology for fragile states includes a structural profile of the country; and a composite index that measures overall country fragility based on the indicators noted in the Carment paper, above. A key assumption in the CIFP approach is that failed and fragile states are different from one another.

- Fragile States Country Report No. 13: Afghanistan, September 2007, Country Indicators for Foreign Policy (CIFP), Carleton University, Ottawa

This risk assessment of Afghanistan covers the time period from September 2006 to February 2007. It applies the model discussed in the CIFP papers above and attributes the overall high risk assessment of Afghanistan primarily to the extremely fragile status of the country's governance, security and crime, and human development. The report also provides 6-12 month forecasts – covering baseline, alternative, best case and worst case scenarios.

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Websites visited

Country Indicators for Foreign Policy, Crisis States Research Centre (LSE), Danish Institute for International Studies, Fordham University, Ghent University, Google, Google Scholar, GSDRC, Ingenta Journals, ODI, World Bank

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