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HOW-TO NOTES

Political Economy Assessments
at Sector and Project Levels

This note was written by Alice Poole, Public Sector and Governance Group (PRMPS). The author is grateful to peer reviewers Sameer Akbar, Ramana Gandham, and Sahr Kpundeh for their invaluable insights and comments, and to Sabine Beddies, Verena Fritz, Kai Kaiser, Brian Levy, and Andy Norton for their dedication to deepening political economy analysis in the Bank, for the use of their good practice frameworks, and for their guidance in creating this note. Thanks are also extended to Ivor Beazley, Richard Calkins, Stephan Eggli, Denyse Morin, Zachary Neumann, and Patricia Rogers, OPCS, for their encouragement and assistance in this endeavor, and to Nils Junge, SDV, for his additional comments.

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POLITICAL ECONOMY ASSESSMENTS AT SECTOR AND PROJECT LEVELS

What is political economy? Political economy (PE) is the study of both politics and economics, and specifically the interactions between them. It focuses on power and resources, how they are distributed and contested in different country and sector contexts, and the resulting implications for development outcomes. PE analysis involves more than a review of institutional and governance arrangements: it also considers the underlying interests, incentives, rents/rent distribution, historical legacies, prior experiences with reforms, social trends, and how all of these factors effect or impede change.¹

World Bank project, sector, and country teams regularly conduct elements of PE analysis—for example, considering which political elites support policies and what will be the distributional and other implications of reforms. However, teams should be aware that often there is a need to do a more thorough PE assessment that looks systematically at the institutional structures and the formal and informal rules of the game that surround and interact with them. For example, for a project that aims to deliver improved teacher performance, the team may not be aware of the involvement of teacher unions in elections for the local mayor and cannot therefore understand why mayoral candidates will not back the proposed changes. This note is intended to provide sector- and project-based operational teams with an understanding of why and how to commission a PE assessment.

Why Use PE Assessments?

PE assessments can help:

- Improve project design, both by enhancing understanding of the prospects for reform in a sector or project and by indicating approaches and options that would work more effectively in the specific political and economic context.
- Lessen project risk and improve the likelihood that funds can be disbursed and project objectives delivered.
- Explain why an apparently committed reform champion has only delivered piecemeal reforms, or why reforms on paper/in legislation are not implemented in practice.
- Explain the likely distributional aspects of reform efforts, and improve the sustainability and equity of Bank operations.
- Promote more thoughtful and effective multistakeholder engagement with client governments and other actors.

In addition, if a task team leader (TTL) is new to a specific country or region, PE analysis can help her or him to understand quickly the interactions between politics and economics in the new context.

¹ This explanation of political economy is adapted from *Political Economy How to Note*, DFID, July 2009; *Political Economy of Policy Reform*, Social Development Department, World Bank, 2008; and Verena Fritz, Kai Kaiser, and Brian Levy, *Problem-Driven Governance and Political Economy Analysis: A Good Practice Framework*, World Bank, 2009.

What is PE Assessment?

Analytic tools that Bank staff are already familiar with—stakeholder analysis, analysis of winners and losers, institutional and governance analysis, historical analysis, analysis of rents, risk assessments—all can play a valuable role in PE assessments. However, none of these in itself is a PE assessment; in fact, using any of these tools in isolation risks missing important elements. For example, stakeholder analysis rarely explains the historical legacies that constrain policy choices today, or indicates the institutional and organizational context in which stakeholders act; while an institutional and governance analysis misses the incentives of players in and around the institutions. PE assessment is more systematic and comprehensive. A problem-driven approach to PE assessment includes not only looking at the problem and its institutional underpinnings, but also drilling into the drivers that explain why the problem is there and then examining what can be done. Such an approach may include using elements of multiple tools—perhaps elements of an institutional review, rent analysis, historical analysis, and stakeholder analysis.

Although the Bank has not always been comfortable with using PE assessments, it now recognizes that understanding contexts more thoroughly can help improve development effectiveness. Indeed, it now includes an introduction to PE as part of the training program for new country managers and directors. Over the last decade or so, Bank staff from different Regions and Networks have conducted PE assessments and have learned a great deal about how to deliver them in an operationally targeted and economical way. This note provides an introduction to PE assessment for Bank operational staff. It draws on staff experience, the input of a Bankwide Political Economy Community of Practice (CoP) (see “More Resources” at the end of this note), and two important studies—*Problem-Driven Governance and Political Economy Analysis: A Good Practice Framework*, by Verena Fritz, Kai Kaiser, and Brian Levy; and *Political Economy of Policy Reform*, published by the World Bank’s Social Development Department.

Carrying Out a PE Assessment

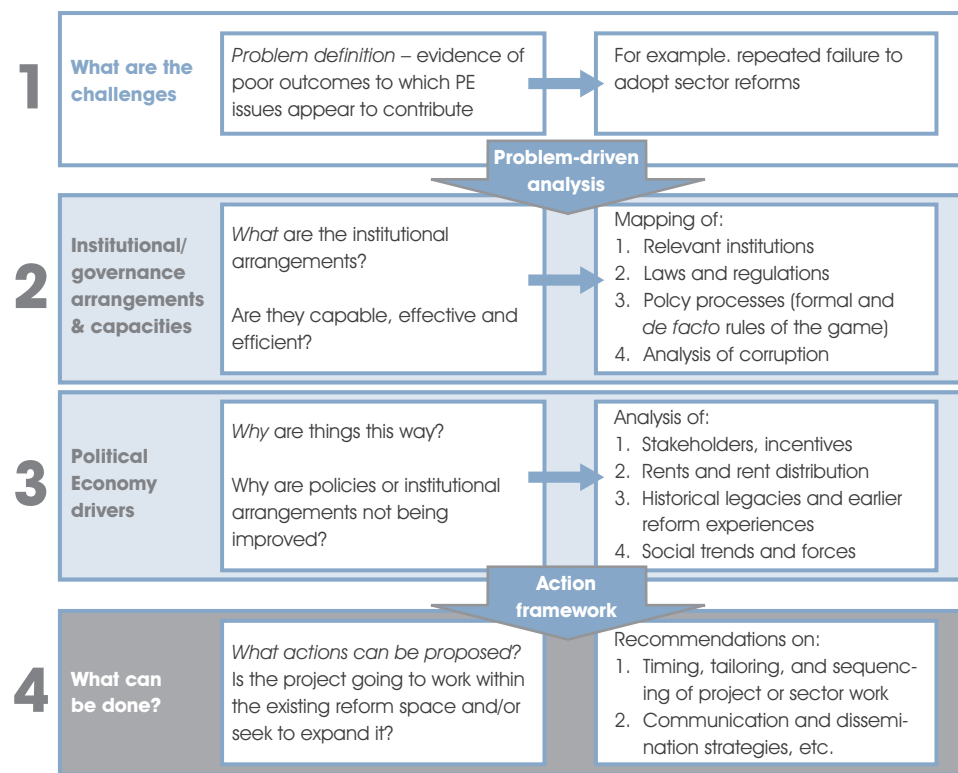
It is important to have a clear purpose when commissioning a PE analysis, so that the resulting assessment will be tailored to the specific context and will delve to the heart of the problem or opportunity. A PE assessment typically involves four steps (see Figure1).

- Step 1: Identify the problem or opportunity to be addressed through the analysis.** The initial identification of challenges may emerge from core Bank work, such as economic and sector work, Country Assistance Strategies, or ongoing policy dialogue with the government or other stakeholders. At a project level, the problem analyzed is likely to be a subset of a sector piece or derived from a more specific policy decision (such as the potential enactment of a law) or implementation of a project.



FIGURE 1
Steps in a Problem-Driven PE Analysis

Source: Adapted from Fritz, Kaiser, and Levy (2009) and Social Development Department (2008).



- **Step 2: Map out the institutional and governance arrangements and capacities.**
- **Step 3: Drill down to the political economy drivers.**
Steps 2 and 3—identification of the formal institutions and the political economy drivers—evidently overlap. Analysis of institutions is widely considered a core part of broader PE analysis, but many governance analyses include step 2 but not an explanation of underlying PE drivers—stakeholders, rent/rent distribution, historical legacies, path dependency, and history—that explain *why* things are as they are. Moreover, some PE analysis is predominantly focused on analysis of stakeholders (e.g., who the players are) without a sufficient understanding of the broader political economy drivers or the institutional context in which they operate. It is also important to think through interactions between formal and informal institutions and stakeholders. In practice, these two steps are often carried out in an iterative way; this can work well, but it is important to cover each of the aspects and to link them continually back to operational needs.
- **Step 4: Propose recommendations on the way forward (an action framework).**
The fourth element is to identify and assess policy options in terms of the likely reform space and steps that can be taken to improve the likelihood of successful

programming. These recommendations can clarify which *technically* feasible policy options and approaches may be *politically* acceptable or feasible in the specific context. This step is of fundamental importance, since these policy and operational recommendations ought to be incorporated into the design of the project or sector work.

At What Levels Can PE Assessment be Applied?

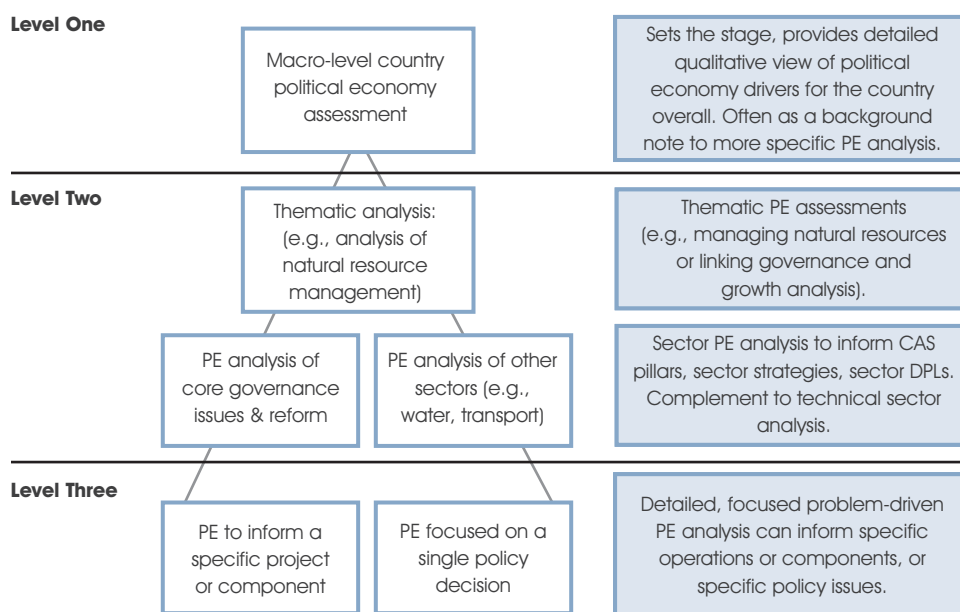
As Figure 2 shows, PE analysis can be applied at country, sector, and project levels, and can focus on one level or cover several levels.

PE assessments need to be designed to be most effective in helping the task team address the specific challenges or opportunities it faces.

- For sector or project assessments there is more focus on the sector context and more detail around the specific components and specific policy decisions (particularly at a local level)—such as the location of a new road, or the type of primary school education initiative. Analysis here is used to supplement a project team’s understanding of the particular project or policy, by mapping out the institutional, stakeholder, rents, previous policy choices, and so on that are relevant to the project design.²
- Project-level PE analysis needs to be placed in the context of country-level and sector-level analysis to be meaningful. If country- or sector-level analysis has

FIGURE 2
Levels of PE Analysis:
Country, Sector,
Project

Source: Adapted from Fritz, Kaiser, and Levy (2009).



² Note that a PE assessment related to a particular policy could be at level one, two, or three, depending on the scale of the policy.



already been carried out by the Bank or other donors, a project team can use that as a starting point. However, at times, especially if project preparation time is short, project-level PE assessment is worth doing in the absence of broader analysis to inform specific project decision-making. Project-level analysis has the benefit of a clear focus and the exploration of specific institutions, incentives, stakeholders, and interests related to a specific policy or program.

Key Variables and Concepts

PE analysis is a diverse, multidisciplinary approach that can incorporate work by political scientists, social scientists, anthropologists, economists, and others. Table 1 shows some of the most familiar concepts and variables covered in PE assessments; task teams can expect that most of them would typically be incorporated in some way into a PE assessment.

How to Conduct a PE Assessment

If the PE assessment is to be effective and useful—that is, grounded in a focused problem, with findings calibrated with sector and country teams and recommendations that have maximum operational relevance—it is essential that both the TTL and the wider team be engaged in the process. Throughout the process, the Bank’s Political Economy CoP could provide advice on any aspect of the assessment (see “Additional Resources” at the end of this note).

Timing. It is important to *commission* PE analysis early in the design process, so that the findings can be incorporated into the project design. A less ambitious PE assessment, focusing on a specific problem and commissioned in time to influence project design, is preferable to a more in-depth study after a Concept Note and budget have been agreed. However, PE assessments can be *used* at different times throughout a project or reform process.

Scope. It can be difficult to ensure that the assessment has the right balance of focus and breadth to be of maximum operational usefulness to task teams. To help with scoping, TTLs are advised to ensure that there is a clear vision of the intention of the work from inception, with a shared understanding among the task team about (a) the focus of the work; (b) the type of output (informal or published); (c) whether the assessment will be used internally only, or will form part of a participatory approach with the government and other stakeholders; and (d) how the analysis will feed into relevant sector or project operational design and implementation. For example, if the work is to inform a particular project in a short timeframe, then a much tighter focus and smaller scope would be appropriate, whereas a sectoral study is likely to be broader and take longer. It is important to manage expectations about what PE assessments can offer, by being realistic about what is possible under specific financial and time constraints.

Process. Table 2 discusses a range of issues related to the assessment process.

TABLE 1 Key Variables and Concepts

Concept or variable	Aspects
Structural variables	<ul style="list-style-type: none"> • Features that affect the political economy of a country, tend to change only slowly over time, and are beyond the direct control of stakeholders. • <i>Examples:</i> economic base and level of development, climate and geography, population dynamics, status of poverty and equity/inequality.
Institutional variables	<ul style="list-style-type: none"> • Related to “rules of the game,” including formal and informal institutions. • <i>Examples:</i> constitutional set-up, electoral rules, political system, body of law, structure of government and ministries, policy and budget processes. • <i>Informal institutional examples:</i> social norms and expectations, patronage networks, rent-seeking arrangements.
Actors/stakeholders variables	<ul style="list-style-type: none"> • Identifying and mapping stakeholders (both individuals and organized groups) and their relative influences, power relations, and positions. • <i>Examples:</i> political parties, ministries, the military, business associations, NGOs, religious organizations, trade unions, farmers’ associations. • <i>External examples:</i> external donors, foreign investors, other governments, international crime organizations.
Winners and losers of reform, and veto players	<ul style="list-style-type: none"> • Mapping stakeholders and their influence and positions in proposed reforms. • Identifying who stands to win and lose from reform; how they can impede, block, or promote reform; and what means they might use.
Historical legacies	<ul style="list-style-type: none"> • Because historical legacies can shape current dynamics profoundly, summarizing key trends, events, processes and policies, especially in relation to the project that is being assessed (e.g., impact of colonial and postcolonial era on education policy choices). • History is also linked to <i>path dependency</i>: how previous policy choices and investments in organizational capabilities have lasting effects on subsequent situations and the range of policy options available.
Rents	<ul style="list-style-type: none"> • How economic and political rents emerge and how they shape the incentives for actors; and how the sources and allocations of rents evolve and shift over time (e.g. finding new sources of natural resources, changes of allegiances).
Patronage networks, clientelism, and neopatrimonialism	<ul style="list-style-type: none"> • Terms used to describe situations on which the formal and informal institutions (strongly) diverge, and informal rules are subversive of formal ones. These concepts matter in multiple ways, including mapping the existence of patterns of personal loyalty and rent distribution that supersede or frustrate reform efforts.
Other concepts	<ul style="list-style-type: none"> • Other concepts—such as political market imperfections or the limited access order framework—may be considered.

Additional Burden for Staff and Clients? Additional workload in any area involves some burden of time and energy. As discussed, active TTL and team engagement is crucial to the usefulness of the exercise. A PE assessment is also likely to involve some tactful conversations with the internal Bank client about the assessment aims, and potentially some challenging discussions about how to proceed once the findings are uncovered; and usually there needs to be some general introduction



TABLE 2 Process Areas, Purpose, and Role of TTL/Task Team

Process area	Purpose	Role of TTL/task team
1. Planning problem-driven PE work	<p>To clarify:</p> <ul style="list-style-type: none"> The objective of the analysis. Questions to be investigated. Whether the output is formal or informal, primarily internal or external. How the PE findings will feed into program design and policy dialogue. 	<ul style="list-style-type: none"> Clearly articulate the key questions to be answered for a specific project or sector. Be part of an interactive process in creating a realistic and focused ToR/Concept Note with relevant staff and consultants. Decide and inform the PE specialist whether the output is formal or informal, primarily internal or external. Agree how the PE findings will feed into program design and policy dialogue. Ensure that the country director/manager approves of the assessment.
2. Defining and sourcing the necessary skills	<ul style="list-style-type: none"> To ensure that a PE assessment team incorporates the necessary skill set (PE skills, strong knowledge of the country and sector/theme, and linguistic and writing skills). Typically, most PE assessments combine at least one international expert and one local expert who cover these skills between them. 	<ul style="list-style-type: none"> Oversee the creation of the team, ensuring that the skill sets are met as well as can be given time and budget constraints. Harness available Bank resources—e.g., the CoP has created a roster of consultants, has materials to introduce them to the Bank operational context, and can also provide comments on ToRs/Concept Notes.
3. Considering how best to involve stakeholders	<ul style="list-style-type: none"> To build upon existing tacit knowledge and begin to translate findings into operations. To decide how participatory to be with government and other stakeholders. 	<ul style="list-style-type: none"> Ensure that the Bank team brainstorms on the challenges and takes the time to share their tacit knowledge, e.g., different project teams working in the same sector. Decide whether the audience is internal to the Bank or whether to adopt an intensive participatory approach with the government and other key stakeholders. Ensure regular feedback to and from PE consultants to the team, to help validate findings and brainstorm policy options. Ensure quality management throughout the process.
4. Sharing and disseminating the work (and when to do so) ^a	<ul style="list-style-type: none"> To determine how and in what form to share and disseminate the work. 	<ul style="list-style-type: none"> Decide how to share and disseminate the work and whether to do so during the process or after the findings are completed. The default position should be to seek wide dissemination, but this is not always possible. Consider that PE findings do not need to be written in a document <i>per se</i>. Also, the final document does not need to be shared broadly, but the findings still could be discussed with a group of relevant stakeholders (e.g., country government, NGOs, local media, external donors).
5. Bridging analysis and follow-up action	<ul style="list-style-type: none"> To ensure that findings are shaped into recommendations. 	<ul style="list-style-type: none"> Ensure an effective link between analysis and implementation by engaging actively throughout the process, not just at the end stages, and by involving sector, country, and project experts in shaping the policy recommendations in the final section of the PE assessment.

^a It is important to consider the requirements of the Bank's Access to Information policy; however, the CoP does not expect that this will drastically change the frequency or methods of dissemination of PE work, which, when it is an input to an operation, is deliberative in nature and therefore is not disclosed.

to the study with country counterparts. Nevertheless, PE assessments can be undertaken to match different time and budget constraints, and, when done well, should produce considerably more value than the alternative of not conducting such analysis at all.

Time and Financial Requirements. PE assessments can be tailored to budget and time constraints. The CoP's Menu of Products for political economy assessments includes specific options for project and sector teams (see Table 3), to provide guidance for TTLs who wish to commission PE work by clarifying what outputs might be achievable given different resources and requirements. Although PE analysis has been extensively funded through the Governance Partnership Facility and additional funding may be available from the Multidonor Trust Fund for Poverty and Social Impact work (hosted by the Social Development Department and the PREM Poverty Reduction Group), the principal expectation is that TTLs would fund PE work from existing budgets or from Regional or sector-based funding.

TABLE 3 Types of PE Assessment by Resource Inputs for Project-Specific Analysis

Inputs and outputs	Product description			
	Desk-based political risk identification note	Project or sector political economy assessment	In-depth and participatory project or sector political economy assessment	Follow-on implementation support
Client	Project TTL/team	Sector/project TTL/team	Sector/project TTL/team	Project TTL
Inputs				
Cost	\$10K	\$30–50K	\$90–110K+	\$3–\$20K
Mission	No mission	Mission	Mission – longer/more people/multiple missions	Mission advisable
Time	2 staff weeks	5–7 staff weeks	15–20 staff weeks	1–4 staff weeks
Approx. timeline	1 month	3–5 months	6 months +	As needed
Sample outputs	10 page note, focused on risk identification	Process support for TTL and team 25–40 page report (and annexes) – risk identification & management; involvement of TTL in assessment	Process support for TTL and team 50+ page report plus intensive multi-stakeholder engagement, and close interaction with operational task team	Process support for TTL and team Targeted just-in-time support on stakeholder engagement challenges

Source: Adapted from the Political Economy COP Menu of Products, April 2010.



Example of a Project-level PE Assessment

PE assessments in the Bank have used the problem-driven approach highlighted here, as well as other approaches. To date there have been more country- and sector/thematic-level than project-level assessments; however, operational teams are expected increasingly to build on the existing assessments to drill down more specifically into project- or sector-level analysis.

*Bangladesh—Urban Bus Operations Study*³

PE analysis was conducted to help the Bank understand why unsafe, polluting buses continue to operate on Dhaka’s already choked roads, despite efforts to regulate and reform bus operations. The assessment was operationally focused, in support of the Clean Air and Sustainable Environment (CASE) project in Bangladesh, and was conducted before project preparation.

It noted the following systemic problems:

- **Poor standards and quality of service.** Many buses do not meet safety standards; buses are overloaded; buses do not adhere to time schedules; buses engage in reckless driving in the competition for passengers; passengers are mistreated.
- **Fragmentation of the industry reduces efficiency.** In Dhaka there are about 6700 buses of various kinds, more than 60 bus companies that vary widely in bus ownership, poor institutional accountability, and a poorly regulated fare structure.

It identified the political economy drivers behind these problems:

- **Political patronage.** Key ruling party leaders dominate bus owners’ associations; and association leaders are members of the Road Transport Committee, which is a hub for patronage distribution because of its role in route allocations. Because routes are created to accommodate many clients, there are too many buses and much congestion.
- **Co-opted industry associations.** Bus owners’ associations and trade unions tend to change leadership automatically with changes in political regime, from the top leaders right down to terminal and route committees. The industry leaders cede power or switch loyalty to the new ruling party to maintain a perverse equilibrium in the sharing of rents between those aligned to the ruling party and the opposition; this asymmetrical sharing of rents helps maintain stability and some predictability in service.

³ South Asia PREM, “Urban Bus Operations in Dhaka,” South Asia Political Economy and Governance Issues Note no.1, World Bank, 2009.

- **Captured institutions of accountability.** The system continues because it serves the interest of powerful stakeholders; those who would have the most interest in reform (especially passengers) have little influence.
- **Political/business-oriented allocation of bus routes and permits.** Problems persist because the allocation of routes and permits is based not on commuter demand but on the narrow business interests of bus owners and their political supporters.

It recommended the following reform strategies:

Considering that there are formal institutions and arrangements in Dhaka that could regulate but fail to do so, more emphasis was given to the stakeholders and their incentives. It was recommended that the driving force for reform could come from owners of large bus companies, with support from their workers, associations, and trade unions, along with civil society groups and the media. However, it would require significant commitment to build a consensus across diverse stakeholders to move the reform agenda forward. The various stakeholder groups were mapped to reflect their interest in reform and their power/influence in order to prepare a communications strategy that would help build consensus.

Input to project design and scope:

Given these findings, the recommendations to the project team included delaying the investment in the “hardware” component of urban transport and restructuring and instead focusing on the “software” component—building a platform for more effective stakeholder engagement in the sector. The project adopted and incorporated the recommendations, and the US\$62.2 million IDA project that was approved by the World Bank’s Board in May 2009 included both a focus on the institutional, policy, and regulatory framework for public transport and support for consensus building around reform.

Additional Resources

Political Economy Community of Practice (CoP). A Bankwide CoP—an endeavor jointly led by PRMPS, SDV, and WBI—has over 200 members across all Regions and Networks. The CoP spearheads and facilitates the Bank’s work on PE, aiming to support colleagues in delivering appropriate, high-quality analysis and other operational support.

- CoP leaders:
 Brian Levy (PRMPS) – blevy@worldbank.org
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 Verena Fritz (PRMPS) – vfritz@worldbank.org



- CoP facilitators:
Alice Poole (PRMPS) – apoole@worldbank.org
Edouard Al-Dahdah (WBI) – ealdahdah@worldbank.org
- A PE CoP website (part of the GAC knowledge portal): <http://gacknowledge.worldbank.org/pe/default.htm>. Includes:
 - Good practice cases, updates on Bank activities, and other useful documents and readings.
 - A comprehensive set of online training modules for PE designed to help Bank staff and consultants engage in PE analysis.
 - A PE “Menu of Products,” which outlines three groups of PE products that help ensure that PE analysis and resulting recommendations are built around operational needs and cycles.
 - A list of potential Bank consultants on PE, with their areas of regional and sectoral expertise.
- A PE social collaboration space allows PE CoP members to share thoughts, articles, and draft documents in a secure but informal space: <http://community.worldbank.org/pg/groups/130954/political-economy-community-of-practice/>

Verena Fritz, Kai Kaiser, Brian Levy, *Problem-Driven Governance and Political Economy Analysis: A Good Practice Framework*, World Bank, 2009.

Social Development Department, *Political Economy of Policy Reform*, World Bank, 2008.

Externally, the Governance and Social Development Resource Center (GSDRC), a knowledge-platform consortium initiative, has a selection of PE cases from DFID and other organizations: <http://www.gsdrc.org/go/topic-guides/political-economy-analysis>



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