



What is political economy analysis?

An introductory text for the ODI workshop on Political Economy Analysis

23-24 January, 2012

With the increasing interest in political economy analysis (PEA) among a wide range of development professionals, it is important to clarify at the outset what we mean by PEA and how this sits within the wider body of knowledge on the interaction of political and economic processes in a society.

The historical roots of political economy analysis

Following the widely accepted definition provided by Collinson, and adopted by the OECD and DFID, we define PEA as follows:

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 (Collinson, 2003; DFID, 2009; Duncan and Williams, 2010; OECD in DFID 2009).

While the explicit interest of the donor community in PEA is, in many ways, a more recent phenomenon, this definition reflects a long intellectual tradition spanning a range of academic disciplines. For example, prior to the 20th century turn towards narrower interpretations favoured by marginalist neoclassical approaches, such analysis was at the core of the field of economics, with the work of Karl Marx, Adam Smith and other early thinkers reflecting this blend of the political and the economic, and the quantitative and the qualitative.¹

Links to existing practices at sector level

For our purposes, however, the focus of inquiry is on the more recent tailoring of PEA specifically to meet the challenges of international development, and more specifically, on applied PEA tools for the donor community. This reflects a specific set of needs resulting from evolutions in donor thinking that recognise the political nature of developmental processes and the need to engage as knowledgeably as possible with local contexts.

The types of analysis generally referred to as 'political economy analysis' (or at least components thereof) are sometimes already practiced by sector staff, though this is usually implicit rather than as a discrete input. The first task for practitioners of PEA, whether they are external consultants, governance specialists or sector specialists, is to realise this fact. In doing so, practitioners can draw on the tacit knowledge of engaged sector staff and local staff, which is a critical step towards achieving operational relevance and uptake of findings as well as improving the quality of the analysis.

Despite the presence and use of this implicit or tacit knowledge, engaging explicitly in PEA through the use of a theoretical framework such as those described in the section below offers a number of potential benefits:

¹ This is not to suggest that political economy analysis as used by donors today is strongly Marxist in nature, but rather to point out the fact that this type of analysis has deep historical roots.

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- It can help to identify gaps in knowledge and mitigate unjustified assumptions and individual biases held by country office staff (even those who are well informed).
 - PEA can provide an analytical approach that helps organise knowledge (tacit and other) into consistent causal stories. In doing so, it can help validate assumptions, explain outcomes and identify potential entry points for interventions to facilitate changes of and/or within the political system.
 - By making explicit and systematising knowledge, PEA can help to facilitate knowledge sharing. This is relevant within project teams, among units within a country office and, to some extent, across country contexts as well. At the same time, of course, findings are often context-specific and cross-country learning will be constrained by this.
 - Recognising that some PE variables can be subject to rapid change, experience in implementing PE frameworks suggests they can also accelerate the process by which new staff develop tacit country knowledge (Fritz et al. 2009), helping to reduce the costs associated with staff rotation and turnover.

The relationship between PEA and governance assessments

There is, even among practitioners of PEA, some disagreement, or at the very least considerable confusion, as to the relationship between governance analysis, or governance assessment, and PEA. This confusion arises in part due to the use of similar terminologies and the fact that the subject matter is to a large extent the same. However, it is worth distinguishing between these two types of analysis. The distinction does not imply that either governance analysis or PEA is always the better approach, as this will depend on the questions asked by the actor commissioning or carrying out the analysis. Indeed, the main point of the distinction is that these are instruments that serve different purposes.

Here we define governance analysis or assessment as those forms of analysis that attempt to measure performance against certain pre-established criteria or characteristics of the state. In other words, governance analysis often takes the form of a gap analysis that starts with an idea of what institutions should look like (generally idealised versions of the institutions of developed Western countries) and compares actual performance to this to identify what is lacking. As a result, this type of approach has been characterised as focused on the prescription of an often narrow set of strategies targeted at variables seen to be in short supply (such as participation, transparency, or accountability). While improvements in such variables may be desirable in their own right, strategies designed to achieve them have tended to focus on templates or blueprints which have not always engaged with realities of different contexts and have often failed to generate the change in developmental outcomes intended by donors.

In contrast, and as the focus of the remainder of this paper, PEA is characterised by a different approach, which takes the context as it exists as its starting point and then focuses on identifying feasible solutions. While the former approach is more typically associated with the pursuit of 'good governance', the latter tends to be associated with 'good enough governance' thinking (see Grindle, 2007). Reconciling these two approaches can be problematic where the desired features of state institutions which prove the basis of a governance assessment (e.g. capability, accountability and responsiveness) are assumed a priori to be solutions to the identified performance problems.

Drawing on this understanding, we advance the proposition that increased operational relevance of research for interventions to improve sector outcomes requires a specific focus on the use of PEA.

Types of frameworks

The history of theory and inquiry into issues of political economy is rich, spanning a range of social scientific literatures in sociology, political science and economics. However, the focus of this paper reflects its purpose: to inform operational practice by donor agencies. Therefore, it largely focuses on PEA frameworks commissioned or used by donor agencies. Even with this limitation, there are a growing number of options for the practitioner as political economy approaches have gained in popularity over the course of the past decade.

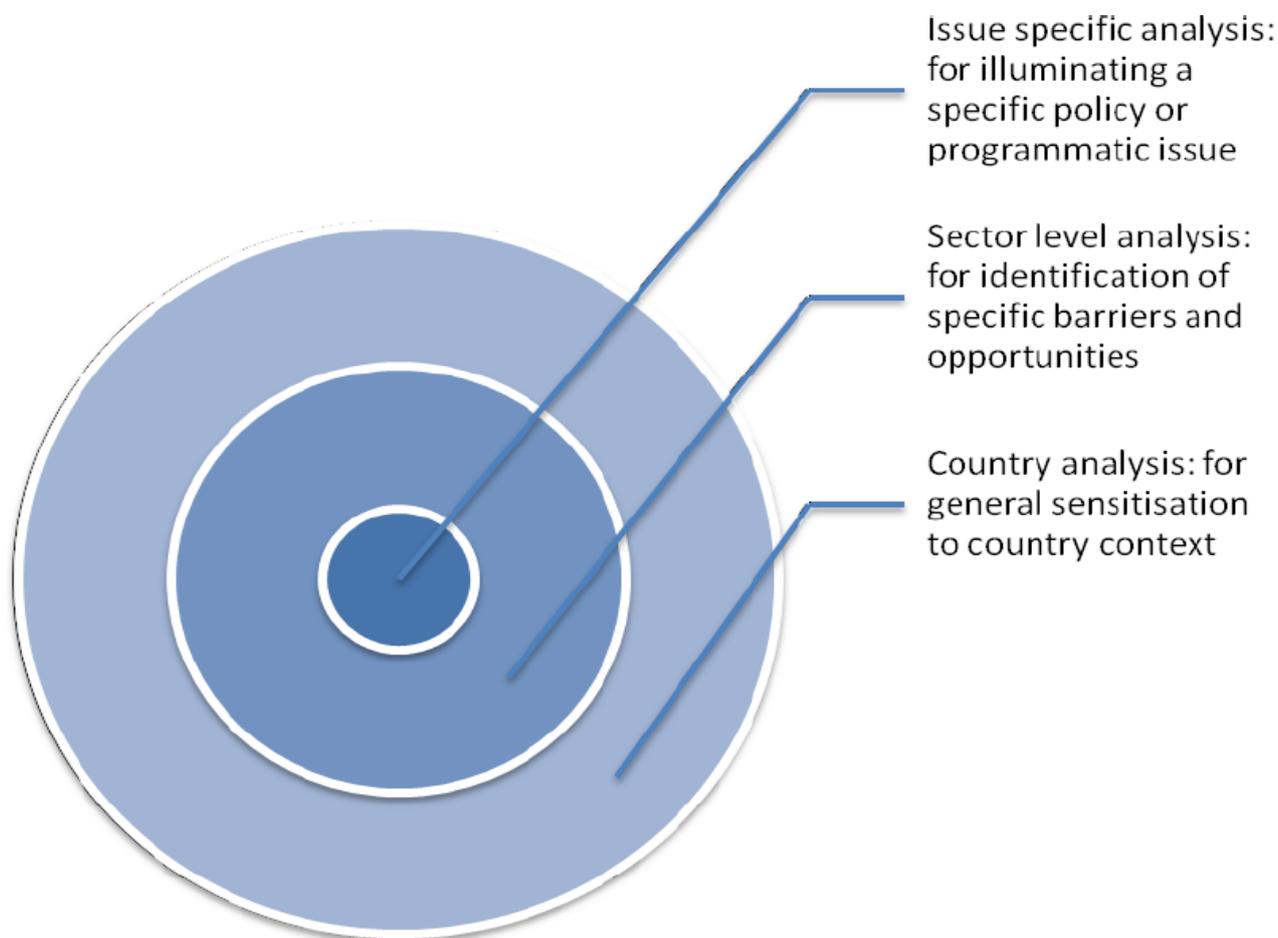
As a result of this proliferation, a number of different typologies have been proposed for classifying PEA work. The DFID How-to-Note, for example, suggests three levels of analysis: macro-level country analysis (used primarily for sensitisation to a country context); sectoral or cross-cutting analysis; and problem-driven analysis (DFID, 2009). This typology reflects how much of the thinking about PEA has evolved over time. Donors' early approaches to PEA were designed and applied at the national level (with the occasional exception, such as the Drivers of Change studies of agricultural sectors in Kenya and Zambia, and one on regional integration processes in East Africa). Over the course of the last decade, there has however been a shift from broad national level studies (like Drivers of Change, SIDA's Power Analysis and the Netherlands' SGACA work) towards sector level analysis and problem-driven analysis. Interviews suggest that this trend is likely to continue, as the amount of detail available at more focused levels of analysis are seen by many in the donor community as having greater potential to provide operationally relevant findings.

We suggest here one change to the DFID typology. Following Fritz et al. (2009), we suggest that DFID's third category (problem-driven analysis) be replaced with one that encompasses analysis at the level of specific policies or projects. In this revised typology, problem-driven analysis is not at one end of a spectrum of analytical scope, but rather a characteristic of analysis that can be applied at any level. One way to express this is to distinguish levels of analysis as shown in Figure 1, but to argue that within any given level, the approach may be driven by a specific pre-identified 'problem' to a greater or lesser extent.

Despite the apparent trajectory towards more focused forms of analysis, it is important to note that in practice one cannot dispense with the sector/thematic and country levels of analysis entirely when working on specific policy and programmatic issues. Relevant action implications can and do arise from political and economic processes taking place at these broader levels (and even at regional or international levels, see Wild and Foresti, 2011) and will still need to be captured, suggesting the three levels of analysis cannot be treated as alternatives (DFID, 2009). As a result, the sector and issue-level frameworks examined all suggest drilling down from, or framing more specific analysis within, broader analysis, rather than focusing exclusively at the more focused level. This process can, and should, draw on already available resources that provide the necessary country level analysis.²

² In some contexts where institutional change is rapid and actors quickly gain or lose authority and/or relevance, for example those defined by a high level of fragility and conflict, caution should be used in drawing on older literature.

Figure 1: Levels of political economy analysis: Country, sector and issue



Source: Adapted from DFID (2009) and Fritz et al. (2009)

A summary prospectus for applied political economy analysis

The frameworks surveyed in the preceding section represent a wide selection of the tools and approaches available for the analysis of political economy issues. The approach to date has been that of 'let a hundred flowers bloom; let a hundred schools of thought contend'. This proliferation has taken place, largely over the last decade and has the advantage that, despite disagreement on which conceptual framework to employ, 'a variety of approaches may generate useful contrasts and insights and prevent analytical hegemony' (SIDA, 2006). Yet, practitioners must now deal with the significant problem of inconsistent terminologies and competing frameworks.³

Additionally, when confronted by this increasing quantity and variety of frameworks, the question arises of how practitioners might choose amongst them. The answer to this question in part is that different frameworks have been shaped for different purposes at different moments in donor planning cycles. For example, Drivers of Change analyses have been widely appreciated by DFID staff in a number of contexts, but particularly when carried out as an appropriately timed contribution to country strategy formulation (Thornton and Cox, 2005).

³ This is, perhaps, unsurprising given organisational demands. The incentives for donors, think-tanks and other agencies involved in political economy analysis to produce, use and disseminate their own diagnostics and analytical approaches are potentially significant and may suggest barriers to harmonisation efforts. and what is not common between them is often complementary (Duncan and Williams, 2010). These commonalities are perhaps unsurprising given their common grounding in theories of political economy. In this section we attempt to draw out from these varied approaches a simplified summary prospectus for applied PEA, which emphasises areas of convergence and provides an indication of what elements of these frameworks are core to a political economy perspective.

Yet the same approach has also been criticised for an inability to provide specific operational conclusions. . The former no doubt strains efforts to make PEA comprehensible to sector specialists when, for example, the various 'layers' referred to in a given framework differ widely from the 'layers' in another. In this context, work on establishing standards and measures of quality have been a challenge. Harmonisation of approaches remains a key concern. Fortunately, despite their apparent differences, most of these frameworks share a number of important commonalities⁴

Content of analysis

Despite differences in language, the grouping of various components of analysis and the visual representations used, the selected frameworks require analysis of similar components:

- Structural factors are the conditions that influence the state and political system, including geographic, demographic, historical, economic, social, characteristics of the community in question. 'Generally these are not readily influenced, either because of the timescale needed, or because they are determined outside of the country' (The Policy Practice and ODI, 2009:5). However, structural factors provide the foundational elements of the context in which analysis must be grounded and often include systemic constraints on what is possible in a given context.
- Institutions are the rules of the game and include both formal and informal rules that govern behaviour. Institutions tend to be more susceptible to change in the medium term than structural features. These are sometimes grouped together with the structural factors in the previous point as the 'context' as in the IAD framework, or occasionally with the actors (stakeholders) as in the World Bank's Political Economy of Policy Reform framework.
- Actors, also called stakeholders, are the individuals or organisations that are most relevant to the issue in question. These include those individuals or organisations that support reform as well as those who oppose it; individuals or organisations that engage with the issue as well as those who ignore it; and individuals or organisations who benefit from potential reforms and those whom it will cost. Actors will vary in their ability to exercise agency, in large part due to the power (economic, social, and political) they hold.
- Incentives are 'the rewards and punishments that are perceived by individuals to be related to their actions and those of others' (Ostrom et al. 2002). These can be both material and non-material in nature. Precisely what types of incentives exist for each actor or set of actors and how actors respond to incentives will be shaped by all of the factors above and the resultant decision-logic used. They may also be affected by the way specific events unfold within processes of change, some aspects of which may be subject to deliberate actions on the part of well-informed and well-placed brokers of reform.

Each of the political economy approaches outlined above reflects the belief that political concerns and economic concerns are linked through the bargaining that inevitably takes place over the use of limited resources. In combination with the use of the relevant context as the starting point for analysis, it is this view that processes of bargaining and contestation and the distribution of power among the actors participating in such processes are central in determining not only what development outcomes occur, but also to why they occur and what might be done to improve those outcomes.

⁴ A recent SIDA report (2006:5) listed a number such commonalities, including 'an account of history (i.a. state formation), understanding formal and informal institutional and structural factors affecting "lack of political will", a concern that donors themselves may impact in a negative way on incentives for progressive change, thinking more strategically about how change – or retardation – occurs ("how" rather than "what"), and how these changes will affect poor men and women'.

Efforts to improve operational relevance: Addressing the question of uptake

In parallel to the trajectory towards increasingly specific sector and issue level studies, the development of PEA frameworks since Drivers of Change has been faced with the challenge of demonstrating a greater degree of operational relevance and, indeed, a particular form of operational relevance.

Early exercises in applied PEA and the responses to it recognised that the operational value of such analysis depends in part on an improved ability to identify set 'constraints'. More specifically, PEA can provide donors with a greater degree of realism regarding the often limited capacity for external actors to effect change in developing countries. Analysis that focuses on systemic constraints arising from structural factors, historical legacies, power relations and institutions as well as actors' incentives, decision logics and choices has proven useful in understanding problems of persistent sub-optimal outcomes and, to a certain extent, how to avoid operations that may conflict with identified constraints. Indeed when the Drivers of Change approach was first introduced, the UK government's Foreign and Commonwealth Office (FCO) highlighted the value of recognising constraints, saying, 'The DOC approach highlights what we cannot do, as much as where we should concentrate our efforts. It therefore offers the prospect of better informed development assistance and supports delivery of our strategic priorities across the board' (FCO, 2004 in Thornton and Cox, 2005:3). In contemporary debates on development assistance that stress the need bring tax payers good 'value for money' in development assistance, such knowledge continues to be valuable.

However, given donor imperatives to address poverty and deprivation, and often to disburse significant funds in doing so, the frameworks developed by donor agencies have increasingly sought to respond to a demand from donor agencies for greater attention to the production of research findings that do more than 'tell us what we cannot do' (Foresti and Wild, 2009). While many of the earlier forms of PEA (including, for example, much of the work done with the DoC and SGACA frameworks) tend to underestimate the potential for reform and institutional change, newer frameworks are explicitly attempting to identify ways forward in the form of actionable findings capable of contributing to improved development outcomes.

This is no easy task. PEA is not a magic bullet. It is not guaranteed to identify a heretofore hidden path to development success. There may not always be an answer which allows a particular policy to be enacted or a particular outcome to be achieved in the short run. However, at this point it seems clear that there are two conditions that seem likely to contribute to the likelihood of practical uptake.

First, the frameworks on which such exercises are based will draw on a good range of applicable analytical concepts with explanatory power to help identify potential solutions to development problems. In particular, they will not restrict themselves to the more structural issues or be overly concerned with spelling out institutional constraints, but will make full use of the instruments available for making sense of actors' choices and the room for manoeuvre that may be generated in processes of change. This does not need to be limited to a narrow range of 'rational choice' perspectives. A range of analytical concepts have been drawn on in more recent PEA work to help create a more realistic picture of human behaviour than is generated by rational choice models. For example, both the World Bank's Problem Driven Framework (Fritz et al., 2009) and the IAD framework (Ostrom et al., 2002a) provide a discussion of a range of game theory concepts, and annex 1 of the EC sector governance framework (EC, 2008) includes a discussion of principal-agent dilemmas.

Second, there is a strong case for ensuring that analysis, at whatever level and using whatever analytical concepts, is problem-driven. In other words, the analysis will be more susceptible to practical follow-up and uptake into policy and action if it is from the outset designed to address a specific problem or set of problems that have arisen in an operational context. Taken together, the application of these concepts adds useful depth to PEA and has the potential to

give such analysis the power to generate a range of ideas for intervention on the part of development partners.