



# Political economy analysis for operations in water and sanitation: A guidance note

*The 'political economy context' is increasingly seen as a deciding factor in the extent to which development programmes achieve their aims. Integrating political economy thinking into programme design can help identify entry points for mobilising change and adjust or design programmes to maximise their effectiveness.*

The purpose of this guidance note is to provide DFID staff with an overview of how Political Economy Analysis (PEA) can improve programme design in the water supply, sanitation and hygiene (WASH) sector. The note:

1. Highlights recent trends in approaches to PEA in international development with relevance to WASH
2. Indicates WASH-specific content relevant for a PEA
3. Provides an overview of how to conduct or contract out this type of analysis
4. Draws attention to recent experiences with the application of PEA in support of WASH sector operations.

It complements a growing body of existing work on applied political economy analysis in international development, including DFID's *How To Note on Political Economy Analysis* (DFID, 2009), and the World Bank's *How To Note for Political Economy Assessments at Sector or Project Levels* (Poole, 2011).

## Applying political economy analysis to WASH

Why do technically sound WASH sector strategies, even those that have been successful in other contexts or constitute accepted 'best practice', fail to improve access to water supply and sanitation, especially for the poor? Why do good sector policies, often supported by donor technical assistance, fail to get implemented? Why are seemingly successful pilot programmes not scaled up? Why are sector financing arrangements consistently undermined? Why do some communities fail to organise their own sanitation practices, but others are successful in doing so?

The answers are complex, but there is increasing evidence that existing relations of power form an important part of the explanation, as do the incentives of actors in formal and informal institutions. This is the terrain of political economy analysis.

The application of PEA to international development started with broad, country-level approaches such as DFID's Drivers of Change. Drivers of Change took the context as it exists as its starting point and focused on identifying feasible solutions. This marked a departure from governance assessments that begin with a normative idea of what institutions should look like (Box 1). However, they were seen by many as overly focused on identifying constraints and have not necessarily helped those working at the sector level develop strategies to address specific problems.

### **Box 1: 'Good governance' and 'good enough governance'**

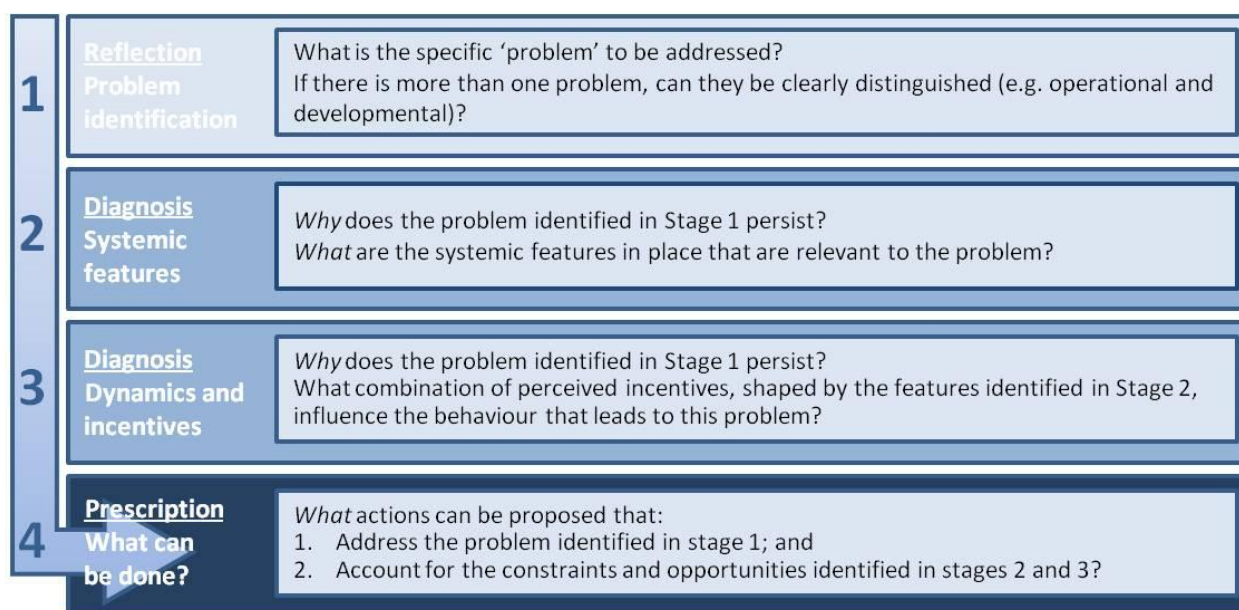
Governance assessments often begin with an idea of what idealised institutions should look like, and compare the existing situation to this. Political economy analysis takes the existing situation as its starting point, and then focuses on identifying feasible solutions to improving sector performance within existing incentives structures and relations of power to achieve 'good enough governance'.

More recent work has sought to respond to demand for research findings that do more than 'tell us what we cannot do'. In the best cases PEA should bring political factors out of the assumptions box of the log-frame and help identify alternative ways forward given the existing political and economic context, ultimately improving the chances of achieving the desired developmental outcomes. Adopting a problem-focused approach to PEA can support this, as described below.

### Conducting a problem focused analysis: WASH sector considerations

Figure 1 details four steps of a suggested approach to problem-driven PEA. The questions associated with each step indicate particular issues for consideration, including:

**Figure 1: Steps in a problem-driven approach to political economy analysis**



**Step 1** involves the identification of a 'problem' to be addressed in the analysis. Research should be designed from the outset to address a specific problem that has arisen in DFID's WASH sector operations. There are a number of ways to approach this, including:

- a review of sector performance data to identify areas of persistently poor outcomes. This might include both qualitative data (e.g. AMCOW Country Status Overviews; UNDP Human Development Report 2006) and/or quantitative data (e.g. national statistics, JMP) disaggregated where available
- a review of past sector programming by DFID or other donor partners to identify where similar strategies have been repeatedly adopted without producing the intended results.

Both methods can be helpful, but it is important for the analysis (and any terms of reference for consultants) to distinguish between operational problems (e.g. related to DFID's programming) and underlying national developmental problems (e.g. specific poor sector outcomes) (Box 2).

## Box 2: Experiences with problem identification in Vietnam

In a problem-focused PEA exercise carried out in Vietnam, researchers worked with Sanitation and Governance Advisors at DFID's country office to identify a specific area where analysis would support the country's sanitation programme. Performance in rural sanitation has consistently lagged behind urban sanitation and urban and rural water supply. DFID was seeking insights into how a range of seemingly successful donor-funded pilot programmes of 'innovative approaches' to rural sanitation could be scaled up. The two issues (poor developmental outcomes and obstacles to donor sector programming) are related but in practice it was important to distinguish between them. The specific focus on scaling-up was helpful in linking the analysis to on-going DFID operations. The process of the analysis was as important and useful as the end product and insights that emerged during the case study research were drawn on there and then; subsequently DFID-Vietnam is working on a focused action plan ("what it will do differently") as a result of the PE analysis.

Source: Harris et al., 2011, (with subsequent observations from DFID-Vietnam)

When conducting analysis in the WASH sector, there are at least two additional distinctions that are important to consider: water supply vs. sanitation/hygiene promotion, and rural vs. (peri)urban environments. These distinctions are useful as the most relevant actors, institutions, incentives and available modes of service delivery differ considerably across subsectors.

**Step 2** involves the mapping of systemic features that are relevant to the problem identified in Step 1. This includes key *structural features* that influence the WASH sector (Box 3). While these features tend to change slowly, if at all, they are important as they can present considerable constraints to feasible solutions.

## Box 3: Sample structural features relevant for WASH sector political economy analysis

- Geographic features (e.g. climate and seasonality; topography; availability of groundwater; quantity and distribution of rainfall)
- Demographic features (e.g. population levels, growth and density; levels and trends of urbanisation; ethnic diversity)
- Historical features (e.g. historical patterns of sectoral investment; levels of service delivery; inherited state of infrastructure)
- Economic features (e.g. economic base and growth; tax base; levels of disposable income)
- Social and cultural features (e.g. levels of equity/inequality)

Analysis here should also include a mapping of the so-called 'rules of the game'; that is, the *institutions* that, together with structural features, shape incentives and determine what is possible in a given context. Institutions should include both formal laws and regulations and informal norms that shape sector outcomes (Box 4). Institutions tend to be more susceptible to change in the medium term than structural features, and may be the target of stakeholder interventions.

## Box 4: Sample institutions relevant for WASH sector political economy analysis

- WASH-specific formal institutions (e.g. sub-sector laws and policies; budgeting regulations for public sector WASH spending; water rights legislation; regulations governing private sector participation; tariff regimes; procurement laws)
- WASH-specific informal institutions (e.g. customary water rights)
- Other formal institutions with relevance to WASH (e.g. levels of decentralisation; rules of electoral competition; human resources and management issues)

- Other informal institutions with relevance to WASH (e.g. prevalence of patronage; roles and responsibilities of traditional leaders; socio-cultural norms governing decision-making and enforcement; degree of executive dominance)

Drawing on previous PEA studies (e.g. academic literature and Drivers of Change or other donor studies) and reviewing relevant policy and programming documents is a useful place to begin. However, as the analysis process proceeds and the problem definition is refined, it may be necessary to revisit this step to reassess the relevance of selected features.

**Step 3** involves the analysis of the behaviour and decisions of relevant actors in the context of the systemic features described in Step 2. Traditional forms of stakeholder analysis that document actors' influence and interest in proposed changes may be a useful point of departure. However, this will need to be combined with use of *analytical concepts*, such as credible commitment; collective action problems (free riding, tragedy of commons, etc.); moral hazard; information asymmetry among principals and agents; exit, voice and loyalty (Box 5).

#### Box 5: Selected analytical concepts for PEA

- **Collective action challenges:** Situations in which the distribution of costs and benefits prevents two or more actors from coming together to produce something of value, when it would be difficult for any single actor to produce it alone.
- **Credible commitments:** Promises made by one actor and thought to be believable by those actors to whom the promise is being made. This credibility tends to arise from the presence of some implicit or explicit cost to the promisor should they break their promise.
- **Exit, voice and loyalty:** When an actor is confronted by decline in, or dissatisfaction with, an existing system they can be confronted with two options: opting out in favour of alternatives (exit); or staying the course and advocating improvements (voice). Loyalty may affect the decision between the two.
- **Information asymmetry:** Situations in which one actor has more information about the relevant situation or interaction than another actor and can potentially use that information to gain some sort of advantage.
- **Principal-agent problems:** Challenges that arise where one actor relies upon and therefore must motivate another actor to act on their behalf or in their interest.
- **Moral Hazard:** A particular form of market failure in which actors are encouraged to act irresponsibly because of implicit or explicit guarantees provided by other actors.

Thinking in these terms helps to focus attention on understanding the roles and, importantly, the *incentives* of different actors. Indeed, identifying and understanding what motivates the behaviour of actors is critical in answering the sorts of 'why' questions listed at the beginning of this note (see Box 6 for an example).

#### Box 6: Applying analytical concepts in Sierra Leone

In a recent analysis in Sierra Leone, researchers documented a set of dynamics leading to extensive incidence of non-payment for urban water services (i.e. free riding) from the utility in the capital, Freetown. This behaviour can be seen as a particular kind of collective action problem in which effective immunity from any type of punishment for unpaid use provides incentives for each individual to avoid payment. The analysis concluded that improving coordination among donor supported community-based programmes could help address problems of pipe-breaking and spill-over effects from localised populist political interference. At the other end of the spectrum, strategies may include indirect engagement to address non-payment by some of the most powerful actors via ongoing PFM reforms to reduce the accumulation of arrears by large public entities.

Source: Harris et al., forthcoming 2012

**In Step 4** those carrying out the PEA attempt to identify feasible routes to improvement in sector outcomes. The first step is to develop an explicit theory of change (see Box 6) in which either systemic features or perceived incentives change such that the developmental trajectory improves. This step also involves an assessment of the range of potentially viable entry points for external actors seeking to facilitate this change. If viable entry points exist, donors can then consider the appropriate interventions and modalities.

### Box 7: Theories of change in political economy analysis

The approach outlined in this note builds on the problem-driven approach detailed by Fritz et al. (2009) by suggesting the need to make relevant theories of change explicit in the analysis. A theory of change is 'an explanation of the causal links that tie program inputs to expected program outputs' (Weiss, 1998) and making these explicit can be helpful if we seek to understand not only whether expected programmatic outcomes were (or will be) achieved given the prevailing political economy, but also *why*. Such an approach can be helpful in both *ex ante* and *ex post* forms of analysis, as indicated by its inclusion at both Step 1 (in the review of previous interventions) and Step 4 (in the design of subsequent action by external agents).

Source: Weiss, C. H. (1998). *Evaluation: Methods for studying programs and policies*. (2nd Ed). Upper Saddle River, NJ: Prentice Hall.

## Practicalities

The utility of PEA is dependent on inputs from country office staff throughout the study, particularly those working on WASH and Governance. There are a variety of ways in which PEA might be embedded in WASH sector operations, ranging from on-the-job analysis by DFID staff to the commissioning of external PE consultants, either from within the country/region or outside, or a combination. This allows for different levels of time and resource commitments on the part of the country office. However, the problem identification phase and the identification of feasible solutions based on the research results will require DFID staff involvement/leadership. The process has been found to be most productive where staff working on governance and those working on WASH issues work together and this can be a valuable opportunity for cross-cadre learning. Table 1 lays out a minimum set of process areas in which DFID staff should be involved. If research is carried out in-house, additional tasks will need to be defined.

**Table 1: Getting the process right**

Process area	Purpose	More information
Planning problem-driven PE work	<p><b>Establishing clarity of purpose</b></p> <p>Is the objective of the analysis to:</p> <ul style="list-style-type: none"> <li>inform the development of DFID's WASH strategies by testing assumptions, explaining outcomes and identifying potential entry points for interventions to facilitate change</li> <li>share knowledge within project teams, among units within a country office or across country contexts</li> <li>help new staff develop country knowledge</li> <li>provide an entry point for engagement with a range of actors, including government counterparts and/or other development partners?</li> </ul> <p>Are there tensions between these objectives?</p>	<p>For more information on establishing clarity of purpose, please see DFID (2009:15-20) and Fritz et al. (2009:31-32)</p>
	<p><b>Initial thinking regarding the 'problem' to be addressed</b></p> <p>Problem identification and establishing a common understanding of the purpose of the analysis require DFID staff time, but are critical in defining a focus for the research that is most relevant to DFID operations in-country.</p>	

Defining and sourcing the necessary skills	<p><b>Putting together a team with the necessary mix of skills and experience</b></p> <p>Skills to include:</p> <ul style="list-style-type: none"> <li>• political economy expertise</li> <li>• strong country knowledge that is both historically grounded and up-to-date</li> <li>• strong knowledge of the sub-sector in question</li> <li>• good local networks in country</li> <li>• appropriate linguistic skills</li> <li>• knowledge of the aid business.</li> </ul> <p>In practice, a combination of international and local expertise has often been found most effective.</p>	For more information on getting the right mix of skills and expertise to carry out a problem driven PEA, including on overview of the strengths and weaknesses of different types of consultants, please see Fritz et al. (2009:32-35)
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Considering how best to involve stakeholders	<p><b>Deciding how to draw on resources available within DFID</b></p> <p>Staff members working on governance and WASH issues have significant tacit knowledge that is relevant to the identified problem and it should be incorporated in the analysis.</p> <p>Fieldwork, feedback regarding deliverables, quality management and other forms of engagement between individuals involved in the analysis should be regular and constructive. This includes communication between relevant DFID staff and engagement with any external partners.</p> <p>The benefits of the direct involvement of DFID staff should be weighed against possible costs including: consequences for independence and deniability, and time constraints.</p> <p><b>Deciding how to engage with external actors of different types (e.g. country governments)</b></p> <p>Political economy analyses vary widely in the degree to which they are participatory in nature. This will depend substantially on the purpose of the analysis and the primary audience (see below).</p>	For more information on how best to involve stakeholders, please see DFID (2009:22-23)
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Sharing and disseminating the work (and when to do so)	<p><b>Identifying the primary audience and deciding whether or not, and in what form, to share the findings of the analysis</b></p> <p>Considerations include:</p> <ul style="list-style-type: none"> <li>• the impact of the publication of any report on relationships with government or other key stakeholders</li> <li>• relative advantages of different forms of dissemination (e.g. closed workshop, publication by DFID, publication by independent consultants, etc.)</li> <li>• the potential for lesson learning for other sector programming or WASH sector programming in other contexts.</li> </ul>	For more information on dissemination, please see Fritz et al. (2009:36-37) and DFID (2009:22-23)
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Bridging analysis and follow-up action	<p><b>Ensuring findings are translated into action</b></p> <p>After the analysis is completed country office staff need to think through how best to use the analysis, and how this might inform country programmes. Any 'output' should be seen as one input among many influencing the design of sector strategies. The uptake of findings into programming should be a continual process; drawing on external expertise can facilitate this.</p>	For more information on translating findings into action, please see Fritz et al. (2009:15-21) and WSP (2011:38-42)
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Adapted from World Bank, 2011



## Key references

### Methods

- DFID (2009) Political Economy Analysis How to Note, A Practice Paper. London: Department for International Development. Available online at: <http://www.gsdr.org/docs/open/PO58.pdf>
- Fritz, V., K. Kaiser and B. Levy (2009) Problem Driven Governance and Political Economy Analysis: Good Practice Framework. Washington DC: World Bank. Available online at: <http://siteresources.worldbank.org/EXTGOVANTICORR/Resources/3035863-1286395629347/PGPE-GoodPracticeFramework12-2009.pdf>
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- WSP (2011) The Political Economy of Sanitation: How can we increase investment and improve service for the poor?, Washington, D.C. The Water and Sanitation Program, World Bank.

### Sample cases

- WSP (2011) The Political Economy of Sanitation: How can we increase investment and improve service for the poor?, Washington, D.C. The Water and Sanitation Programme.
- Harris, D., M. Kooy and P.Q. Nam (2011) Scaling up rural sanitation in Vietnam: Political economy constraints and opportunities. ODI Working Paper 341, London: ODI.
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- Singh, A. (2008) Political Economy Reforms: Learning from the Delhi Water Experience, World Bank. <http://www.gsdr.org/go/display&type=Document&id=3764>
- Swatuk, L. (2008) 'A Political Economy of Water in Southern Africa', *Water Alternatives* 1(1):24-47.

### More information

- The Policy Practice Political Economy Library: <http://bit.ly/wPGHc8>
- The capacity4dev working group on political economy analysis: <http://capacity4dev.ec.europa.eu/political-economy>
- The GSDRC Political Economy Analysis topic guide: <http://www.gsdr.org/go/topic-guides/political-economy-analysis>
- World Bank Political Economy Analysis Portal: <http://go.worldbank.org/M80379YR10>

### Key DFID contacts

- Lily Ryan-Collins, Water and Sanitation Team, Policy Division ([l-ryancollins@dfid.gov.uk](mailto:l-ryancollins@dfid.gov.uk))
- Mark Harvey, Senior Infrastructure (Sanitation) Advisor, Vietnam ([m-harvey@dfid.gov.uk](mailto:m-harvey@dfid.gov.uk))
- Ruth Bradley-Jones, Governance Team, Policy Division ([r-bradley-jones@dfid.gov.uk](mailto:r-bradley-jones@dfid.gov.uk))
- Zoe Wildig, Governance team, Policy Division ([z-wildig@dfid.gov.uk](mailto:z-wildig@dfid.gov.uk))