The fox knows many things, but the hedgehog knows one big thing.
—Isaiah Berlin

**Introduction**

Why does development progress in some places but not others? Very often, the distinguishing factor is not a lack of financial resources or of knowledge about the right technical solution. Rather, a crucial distinguishing factor for whether and where progress happens is how incentives and constraints shape the willingness and ability of national or local elites to act in pursuit of development goals.

Governments may decide to allocate agricultural services to their core supporters or to key swing voters and to deny them to others, thereby reducing the incentive for farmers to seek increases in productivity. Social health insurance benefits may be extended ahead of elections, but removed once elections have taken place. Procurement decisions may be skewed for the private benefit of those involved or for the financing of ever more costly electoral campaigns. At the same time, political incentives play a powerful role not only in frustrating development efforts, but also in shaping opportunities for change. Often, there are various stakeholders—within government, in the private sector, and in civil society—who want to change what government does for the better. However, in many situations, advice based on technically optimal solutions is not that helpful for potential reformers because such solutions may not be politically feasible.
or may even backfire and have unintended negative consequences. Applied political economy analysis (PEA) therefore holds considerable promise to help identify what policy responses and strategies are most likely to work for addressing difficult and persistent development challenges.

The general problem that political incentives are frequently at odds with a technocratic approach to development has long been recognized. Politicians prefer policies and seek institutional changes that support their current needs, including exigencies such as horse trading when negotiating over policies with other powerful stakeholders or designing intergovernmental relations with a view to maintaining some form of centralized control, rather than optimizing service delivery.

At the same time, the interests of politicians can also broadly converge with development objectives, such as seeking to deliver growth, jobs, or social protection benefits as a way to secure legitimacy or reelection. But even when politicians seek development progress, they may struggle to pursue these goals effectively because of the need to maintain the support of vested interests, including pressures for favor from family members or close allies; to lead difficult-to-manage coalition governments; or to navigate a difficult mix of fiscal problems and public discontent.

The rediscovery of the importance of political economy has been part of a broader movement of rethinking development. In the 1970s, donor agencies and other development practitioners sought to sidestep politics as much as possible and focus advice on technical questions and solutions, both because political incentives appeared so frequently incompatible with development in the public interest and because politics had become so deeply entangled with foreign policy considerations at the time. In the 1980s, structural adjustment considerations dominated (especially, but not only, in the World Bank) as a policy paradigm for countries seeking broad-based development, including a strong focus on the need to roll back the state. Furthermore, neoclassical economics aimed at constraining political decision-making powers through mechanisms such as independent regulation, “getting the prices right,” and so on as the best solution for many policy areas. Although such a perspective has merits, in many instances the underlying political drivers are too strong for technical constraints on politics to have their intended effects.

Over the past quarter century, recognition has grown that institutions—the rules of the game—matter. Institutions underpin markets and provide the framework within which the bureaucracy acts and political contestation plays out. Good governance moved to center stage in the development discourse as part of an extended (“structural adjustment plus”) Washington Consensus. Initially, the hope was that governance represented a new development magic bullet. However, it became increasingly evident that using a technically strong design combined with importing the proper legal and regulatory rules were not sufficient to develop good institutions. Behind institutions lie politics: effective institutional (and policy) reform requires coming to grips with the political underpinnings and the drivers that shape
how institutions develop and how decisions are made as well as how de jure institutions are used de facto.

Given this challenge, there has been an increasing effort to better understand stakeholder incentives and the way they shape institutions. Why do good policies and effective institutions emerge in some places, even though these changes typically entail some powerful losers? What is blocking reforms in other places, and what could be done about it? Such questions are at the heart of a political economy perspective on development. The premise of PEA for development effectiveness is that it is important to understand how such political incentives shape decisions and to build an awareness of political constraints—as well as opportunities—into the provision of advice and development engagement.

These insights have triggered a search for how political economy challenges can be included more explicitly in the operational approaches of development agencies. There has been cumulative learning over time on these issues, and this process is continuing (see also Desai 2011; Carothers and de Gramont 2013; Harris and Booth 2013). In the early to mid-2000s, the U.K. Department for International Development’s (DFID) Drivers of Change analytic work constituted the first time that a major development agency invested seriously in PEA. In parallel, the World Bank undertook a number of initial Institutional and Governance Reviews, the Swedish International Development Cooperation Agency undertook its power analysis, and, a few years later, the Netherlands initiated its Strategic Governance and Corruption Analysis. The learning process has also included substantial cross-fertilization between academics and development practitioners (although even more could still happen in this regard).

In the late 2000s, the World Bank made a major effort to raise its game in incorporating political economy considerations into its work, as part of the implementation of the Bank’s Governance and Anticorruption strategy. PEA moved from being a rare activity commissioned occasionally by an adventurous team within the organization to becoming more widely used and considered. As part of this effort, there was sustained interaction between staff members from the World Bank and from other donor agencies working to mainstream political economy. Indeed, a significant share of the World Bank’s effort was financed by a special-purpose grant made available by DFID, the Netherlands, Norway, and, more recently, the Australian Agency for International Development.

This book results from a systematic effort at taking stock of what the World Bank has learned from its efforts to mainstream PEA. The effort included an open invitation to staff members active in the area to submit their work for presentation and discussion at a 2012 review conference. The goal was to identify work that was strong analytically and that provided practical recommendations that resulted in action. The eight cases presented in this book comprise good practice examples that emerged from the stocktaking effort. The book is thus intended to illustrate (and reflect on) what the Bank has been able to achieve in this area so far and to help others learn more about how PEA perspectives can be effectively integrated into development approaches.
This chapter provides an overview and comparative synthesis of the lessons that emerge from the individual cases. The first section outlines the problem-driven approach, which has broadly guided much of the work over the past six years, and summarizes the problems that were addressed by each of the case studies. The second section compares the diagnoses undertaken in each case; the focus is on similarities and differences in both the methodologies that were used and the explanatory variables that were highlighted in each case. The third section addresses options and lessons about evidencing PEA. The fourth section reviews the policy implications that were derived from the PEAs. The fifth section focuses on the extent to which the analyses and their policy implications indeed influenced operational practice in the World Bank. The final section highlights some overall lessons that emerge and concludes the chapter with some reflections on how to effectively address the difficult challenges that taking politics seriously can pose for development practice.

A Problem-Driven Approach

At the outset of the current wave of World Bank work on political economy, a team of in-house specialists laid out a problem-driven approach to governance and PEA. Its guiding principle was that to be concretely useful for practitioners, PEA—whether applied at the country or sector level or used to inform a specific operation—should start with a diagnosis of a specific problem, that is, a specific unresolved development challenge or an opportunity that a team seeks to seize. The presumption, the validity of which the reader can judge from the cases in this volume, was that a problem-driven approach was more likely to lead to specific findings and actionable recommendations than would approaches that have a broad emphasis on “understanding the context” or a focus on testing existing theories.

As figure 1.1 illustrates, the problem-driven approach broadly comprises three steps. The first step is to identify a specific development challenge, often one where technical analysis and engagement on their own have failed to gain operational traction. The challenge could be narrowly focused: for example, what to do about continued teacher absenteeism or about stalled efforts to improve electricity provision. It could also be framed more broadly, such as how best to pursue further health sector reform, how to promote a more level playing field for businesses, or how to help a country deal with fundamental shocks.

The second step consists of analyzing why the observed, dysfunctional patterns are present, that is, the political economy drivers. This step should cover three dimensions: (a) relevant structural factors that influence stakeholder positions; (b) existing institutions, including institutional dysfunctions that channel behavior, as well as ongoing institutional change; and, finally, (c) stakeholder interests and constellations.

As the arrows on the right-hand side in figure 1.1 illustrate, structural factors, stakeholders, and institutions are interdependent.
Structural factors influence stakeholder incentives and opportunities. Relevant structural factors can include a country’s geography, resource endowments, or demographic dynamics. These factors may also include elements that may be subject to change but that are outside the control of stakeholders, such as shifts and swings in commodity prices that can have significant effects on stakeholder incentives and opportunities (for example, by increasing rents or, conversely, by contributing to growing fiscal pressures).

Formal and informal institutions channel what stakeholders can do positively as well as negatively. Institutional strengths or weaknesses influence opportunities for collective action and can reinforce or mitigate social cleavages.

Stakeholders also often have opportunities to shape the design of formal institutions (such as laws, regulatory bodies and their powers, and so on) and the degree to which informal institutions support or diverge from formal ones.

The third and final step is to identify ways forward, including how to initiate change. These are analytical recommendations intended to offer a road map for operational engagement for potential entry points and ways to engage. As will be discussed further in the fourth section, such recommendations must be clear about risks (including unintended consequences of first-best policy reforms) and offer options and positive ways of engaging with political economy drivers. These options may include how to identify the areas with the greatest potential overlap between political incentives and policies that foster development progress,
how and with whom to engage to expand opportunities for progress, or how to increase the prominence of certain policies on a government’s agenda.

Below the dotted line in figure 1.1 stands the implementation of the identified approach. The line is where analysis ends and implementation picks up. The fifth section discusses the post-assessment efforts for the eight cases in greater detail. The section examines the cases’ dependence on the responsiveness of the operational staff members and their managers and the cumulative momentum of subsequent events.

Each of the eight cases presented in this volume has been broadly consistent with a problem-driven approach. As table 1.1 summarizes, each case focused on a specific development challenge. These challenges can be organized into three broad groups:

- The Mongolia and Morocco cases explore political drivers of different aspects of resource allocation by the central government such as the use of mineral rents and energy subsidies.
- The Dominican Republic and Zambia cases address the performance of national infrastructural agencies—electricity supply in both cases and Zambia’s telecommunications sector.
- The Ghana and Sierra Leone cases analyze sectoral development challenges at the interface between national and subnational political drivers, the former

### Table 1.1 Problem-Driven Political Economy—Eight Development Challenges

<table>
<thead>
<tr>
<th>Country</th>
<th>Focus area</th>
<th>The development problem</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resource allocation</strong></td>
<td></td>
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</tr>
<tr>
<td>Mongolia</td>
<td>Mining resource boom</td>
<td>Risk of rising natural resource rents contributing to populist pressure and potential misuse of public funds</td>
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<tr>
<td>Morocco</td>
<td>Subsidy reforms</td>
<td>Government facing fiscal pressure to reform existing subsidies, yet having concerns about backlash against reforms</td>
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<tr>
<td><strong>National infrastructure</strong></td>
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<tr>
<td>Dominican Republic</td>
<td>Electricity</td>
<td>Unreliable electricity provision and failed past efforts to improve the system</td>
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<tr>
<td>Zambia</td>
<td>Electricity and telecommunications</td>
<td>Inefficient sectors; failure to implement restructuring despite repeated government plans to do so</td>
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<tr>
<td><strong>National, sectoral, and local interactions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>Commercial agriculture</td>
<td>Lack of credible commitment for private investors, including establishment of reliable purchasing arrangements with smallholder farmers</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>Service provision at subnational levels</td>
<td>Challenging interplay of incentives between the national government and subnational ethnic and voter divisions for enabling decentralization in a way that would more effectively enhance service provision at subnational levels</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>Local infrastructure</td>
<td>Unclear whether institutional reforms meant to empower communities have their intended effects</td>
</tr>
<tr>
<td>Philippines</td>
<td>Local and health</td>
<td>Allocation of national funds to subnational units for roads and health services highly uneven and not explained by development criteria</td>
</tr>
</tbody>
</table>
through the lens of commercialized agriculture and the latter with a focus on the roads and power sectors. For Papua New Guinea and the Philippines, the focus is principally at the decentralized level—the provision of small-scale infrastructure in Papua New Guinea and health services and (again) roads in the Philippines.

Diagnosing the Political Drivers of Decision Making

The eight examples of PEA vividly illustrate how to move from general attention to political influences on development to specific problem-focused diagnoses. This section will highlight some emerging comparative lessons from the cases.

One common way to think about the interactions between politics and development is to focus on regime types—whether a country has a democratic, authoritarian, or hybrid regime (Bogaards 2009; Levitsky and Way 2010; Norris 2011; Przeworski et al. 2000). Among the sample of countries discussed here, four are considered to be democratic (the Dominican Republic, Ghana, Mongolia, and Zambia), three are hybrids leaning toward democracy (Papua New Guinea, the Philippines, and Sierra Leone), and one is a hybrid leaning toward an authoritarian regime (Morocco).2

However, understanding the opportunities and constraints to reform calls for a much more nuanced analysis than is provided by a regime-type focus. In some democratic countries, political elites care about social welfare; but there are also countries with democratic or hybrid regimes where that is not the case. Conversely, whereas a significant number of authoritarian regimes are solely focused on maintaining a fragile stability and economic rents for narrow insider groups, some also seek to deliver services to the public at large. As each of the case studies illustrates, a more useful way forward is to focus on the specific constellation of incentives that shape the actions of key decision makers.

Understanding Incentives

As the cases underscore, careful attention to the interaction of economics and politics is crucial to understanding the actual incentives that prevail for stakeholders associated with a specific problem in a specific setting. Policies and their development effects are shaped by incentives that derive from the political as well as the economic realm. Moreover, understanding the way in which political and economic interests intersect can be much more revealing about fundamental drivers than just looking at politics and day-to-day political maneuvers in isolation.8

Learning about these incentives is not easy. This difficulty is particularly true of ownership patterns in the economy that are often important for analyzing certain interest structures (see the following section). Other economic factors can be more readily observed: for example, fiscal pressures (such as spiraling costs of food or fuel subsidies) create strains on governments and may compel action in a variety of policy areas. Natural resource booms frequently create new economic interests and power holders in countries that previously had fewer sources of wealth.
The primary purpose of PEA for development effectiveness is not to “name names”, that is, not to identify who are the “good guys” and the “bad guys” in a specific situation. Rather, it is to understand the underlying drivers that shape the incentives of decision makers. As the case studies reveal, much can be learned about these underlying drivers without delving into a detailed account of who did what to whom and when. Such actor-specific analysis can also create a misleading sense that particular individuals are the problem, whereas in many cases, the incentive structures are embedded and changes in individuals often have limited impact. That said, knowing about potential allies and opponents can be helpful in facilitating subsequent engagement if the knowledge is used in a nuanced way and avoids caricatures. Most individuals are not pure champions or opponents of reform, but rather respond to a variety of incentives and challenges, including the need to reach compromises, to balance interests, to be selective about spending political capital, and so on.

Understanding the Mechanisms Used to Manage Political Support

Strikingly, for all of the diversity of the country settings and the problems being considered, one common theme emerged across all the case studies: the role of clientelism and the importance of incentives related to managing political support. At the most general level, clientelism means the discretionary targeting of public resources and favor by influential political actors to specific constituencies in exchange for political support. In each case study, discretionary control over public resources was used to promote elites’ chances of maintaining power or being reelected. However, how this played out in practice varied from country to country. In some countries, regional or ethnic considerations dominated; in others, the alliances were more personalized; and in yet others, the focus was more on general populist appeals.

In Sierra Leone, the targeting of resources to build networks of support had a predominantly regional or ethnic dimension. The two major parties had their principal bases of support in different regions whose ethnic configurations are distinct from one another. The party in power directed resources disproportionately to its ethnic and regional base and, within that, targeted resources to politically connected allies.

Center-regional dynamics played out in a more fragmented way in the Philippines and Papua New Guinea. In these countries, many national-level politicians have sought to target resources to subnational levels in ways that secure the allegiance of powerful allies and promote the chances of being reelected, primarily to national parliaments. In contrast to Sierra Leone, ethnicity has not been a dominant political dividing line in the Philippines. Rather, much of the spoils flowed through family clans that spanned national and local levels and that used targeted intergovernmental transfers and discretionary local allocation to consolidate control. The Papua New Guinea case study provides less information on the dynamics of national-level politics, but it highlights the influence of elected members of the national parliament who maintained high levels of influence over how resources were allocated within districts despite initial
donor-supported efforts to change institutions in ways that would allocate such decision-making powers to local communities.

In the Dominican Republic and Zambia, clientelism was less regional. Both countries were characterized by the relative absence of a programmatic, ideological (or ethno-regional) basis for politics. In Zambia, the spoils system was centralized in the president who used his discretionary authority to cultivate alliances within the elite. In the Dominican Republic, subsidized power tariffs and the tolerance of nonpayment for electricity by various groups have been used by successive presidents to shore up political support. In addition, jobs and contracts related to the sector have been used for rewarding supporters. The practices have created powerful obstacles to reforming the sector and to attracting investment funds to expand generation and distribution capacity.

The Dominican Republic, Mongolia, Morocco, and Zambia further illustrate how intraelite arrangements and rent allocations can be intertwined with a populist political discourse and policies that complement the search for political support. For example, the low power tariffs in the Dominican Republic and in Zambia or the energy subsidies in Morocco benefit many groups in society. This wide-reaching benefit in turn means that reforms face broad-based popular opposition. At the same time, the prevailing arrangements also benefit elites and entrenched insiders: wealthier citizens consume most of the subsidized and underpriced energy in the Dominican Republic and Morocco, and insiders within state-owned power companies in the Dominican Republic and in Zambia benefit from the status quo and the preferential access it offers to job and contracting opportunities. There are further significant opportunities for insider gains, for example, for those who are licensed to import diesel fuels while the networked power sector remains underdeveloped or for those who deal directly in the mining sector in a resource-rich country such as Mongolia.

Moreover, through populist discourse, elites and insiders can sponsor public opposition to reforms, even when the principal beneficiaries of the status quo are the elite insiders. It is important to note that combinations of elite settlements and populist policies may do better at broad-based development than a settlement where allocation of rents takes place exclusively among elites (as observable in some highly exclusive and repressive resource-rich countries). However, these combinations often lead to policies that are fiscally unsustainable. For example, energy subsidies in Morocco have come to consume more than 5 percent of gross domestic product per annum, and in Mongolia, the increase in social transfers has contributed to sizable fiscal deficits despite record-high commodity prices and to an inability to maintain transfers during downturns in commodity prices, when social protection measures are most needed.

Ghana and Mongolia appear to be cases where national-level electoral politics revolve around policy issues and (potentially) government performance and where politicians cannot simply rely on ethnic or regional loyalties to win elections. For Ghana’s national-level politicians, who operate in a relatively competitive electoral environment, the potential of developing new types of
commercial agriculture in new geographic areas offers an opportunity to show progress and, ultimately, to bolster their prospects to win votes if the development succeeds. However, in rural areas, institutions governing property rights are ambiguous and fluid. This institutional uncertainty contributes to the risk of opportunistic behavior as new, commercial entrants come onto the scene and to the concerns among some stakeholders that they could end up being losers. The case study argues that, because of the way in which Ghana’s national politics works, the national-level actors are more likely to be supporters than hindrances to the effort at agricultural reform. In Mongolia, politicians motivated by winning and maintaining electoral support have negotiated a better deal for the country from foreign mining sector investors than many countries elsewhere, in terms of securing significant revenue from the projects. At the same time, the pursuit of electoral advantage has made it difficult for politicians to collectively commit to sustainable fiscal management and to move from a rapid succession of different cash handouts and social welfare payments to a more consistent approach.

Between “One Size Fits All” and “Every Country Is Unique”
Overall, the wave of recent PEA points to an evolution in thinking about contexts. Economic and technical approaches have tended toward recommending similar approaches across a broad range of (very) different environments based on the assumption that best practices—once identified—should be replicated. At the other end of the spectrum, advocates of social, political, and historical analysis have at times gone beyond pointing to the importance of understanding specific contexts and have argued that every country and every society is highly particular and that solutions therefore have to be unique, with few opportunities for learning from elsewhere.

The insights from PEAs highlighted in the case studies suggest a more intermediate possibility. As outlined above, there is considerable resemblance among the political economy challenges encountered across a range of countries and sectors. The allocation of road projects to specific localities and the allocation of funding to building new roads versus investing in maintenance are affected by political economy calculations in surprisingly similar ways in countries as different as postconflict Sierra Leone and the middle-income Philippines. Governments are reluctant to increase power sector tariffs out of concern about a popular backlash on the one hand and insider resistance on the other hand in countries as different as the Dominican Republic and Zambia. In each case, the particular dynamics are specific to how different drivers—such as the regime type and the space for civil society, the presence of reformers within government, and the effect of economic cycles—interact, but the type of challenges encountered in many policy areas and sectors are remarkably common. Correspondingly, as discussed in the section below, titled “Policy Implications of Political Economy Assessments,” the recommendations derived from PEA also share certain features across countries.
“Evidencing” Political Economy Analysis

Complementing the learning about diagnostic approaches that can help to understand the political economy obstacles to development progress is the learning about the specific evidence that can provide the empirical underpinnings for PEA. Wariness of PEA stems in part from a concern that its focus is on issues that can be difficult to evidence sufficiently. However, the examples in this book demonstrate that the evidencing can, in fact, be relatively robust. Connecting data about decisions (such as fiscal allocations) and information such as the de jure design of institutions and the de facto use of institutions can be used as the basis for analytic narratives that drill into specific development challenges and for identifying constraints and opportunities for progressive change. Crucial information for deciding how to engage with the stakeholders can be developed by identifying, through formal surveys as well as informal interviews, the stakeholders that are relevant for a sector, their policy positions, and their mutual influence on one another.

The traditional approach has been to assemble such information informally as part of the tacit understanding of various agency staff members. Whereas such knowledge is very important, it is too unsystematic to be relied on as the only source of analysis for incentives and interests. Moreover, tacit knowledge accumulated by individual staff members tends to remain disconnected. For example, insights on a particular sector and into the broader political drivers of intergovernmental relations in a country and, in turn, the links of these to other sectors or policy aspects are rarely connected when analysis stays entirely informal.

Experience is accumulating about the type of evidence that is both useful and accessible for problem-driven PEA. As the examples in this volume illustrate, more is being learned about the specific ways in which rents are reaped and distributed within different sectors as well as about the types of information that can be used: such as fiscal, price, and household survey data; analysis of electoral systems and mapping of election results; qualitative evidence about stakeholder interests; positions, incentives, and opportunities for exercising accountability; careful mapping of institutional rules and their implications; and historical legacies and the way they influence current views and expectations.

As table 1.2 reflects, the chapters brought together in this volume have taken a range of methodological and evidencing approaches. The table also reflects the tremendous opportunities for bringing both qualitative and quantitative information to bear in order to explore and corroborate political economy drivers and opportunities for change. The increasing availability of indicators of sector-specific and overall development progress as well as of information about budget allocations or utility pricing offers opportunities to more precisely pinpoint the nature of problems and whether progress is being made as expected. Existing public opinion surveys such as Latinobarómetro and Afrobarometer can be useful sources on political views and trends (for example, see chapter 4 on the Dominican Republic). At the same time, process tracing from a growing range of public sources and well-selected interviews continue to be important.
### Table 1.2 Types of Evidencing Used in the Eight Country Chapters

<table>
<thead>
<tr>
<th>Country</th>
<th>Focus area</th>
<th>Specific issues addressed and evidencing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Resource allocation</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mongolia</td>
<td>Risks and management of a mining sector boom and use of emerging fiscal space</td>
<td>Fiscal and commodity price dynamics, historical legacies (primary and secondary sources), analysis of electoral dynamics and resulting political incentives, process tracing of policy decisions, motivations (including interviews and public election programs) and results, constitutional and other institutional provisions, and compliance with formal institutions</td>
</tr>
<tr>
<td>Morocco</td>
<td>Subsidy reforms</td>
<td>Citizen survey focused on knowledge about the subsidy system, including survey questions about likely reactions to various degrees of price increases</td>
</tr>
<tr>
<td><strong>National infrastructure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dominican Republic</td>
<td>Electricity reforms</td>
<td>Country-level collective action dynamics and elections (including survey evidence and secondary sources), analysis of opting-out strategies (based on household survey data), analysis of utility pricing and tolerance of nonpayments, process tracing of past policy reform decisions and of current stakeholder positions, and interests based on interviews and publicly accessible information</td>
</tr>
<tr>
<td>Zambia</td>
<td>Electricity and telecommunications reforms</td>
<td>Analytic narrative and process tracing of decision making in relation to sectoral restructuring and pricing, based on interviews and insider understanding</td>
</tr>
<tr>
<td><strong>National, sectoral, and local interactions</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>Potential and challenges for developing commercialized agriculture in new areas</td>
<td>Narrative tracing current investment and development opportunities as well as reasons for recent failed attempts linked with in-depth historical perspective based on team expert; assessment of stakeholder interests at local, regional, and national levels through interviews; and analysis of resulting opportunities</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>National-level accountability challenges and implications for government efforts at subnational service provision</td>
<td>Tracing of country historical trajectory using various sources of information; electoral patterns in an ethno-regionally divided setting (based on data on geographic distribution of electoral support) and resulting incentives; analysis of institutional arrangements for subnational service delivery; sector and survey data on current status, budget, and aid allocations; and tracing of progress with rehabilitation and expansion</td>
</tr>
<tr>
<td>Papua New Guinea</td>
<td>Challenges of effective institutional reforms and participatory approaches for channeling infrastructure projects to local communities</td>
<td>Detailed analysis of institutional provisions, and electoral rules and incentives Commissioned survey of about 1,100 households across 49 wards in 9 districts of the country, focusing on how communities used reformed institutional arrangements; analysis of community characteristics and projects obtained (using regression analysis); and comparison with stated policy intentions</td>
</tr>
<tr>
<td>Philippines</td>
<td>Challenges and opportunities for strengthening local infrastructure delivery</td>
<td>Summary of unexplained challenges from technical analysis (budget and sector data), country-level dynamics based on expert understanding and secondary sources, commissioned survey of 1,200 households in 30 municipalities in Isabela province, regression analysis of electoral characteristics, and relative service delivery benefits received by localities</td>
</tr>
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</table>
to fully understand country and issue-specific dynamics and to be clearer about motivations and perceptions of stakeholders and decision makers. Also, history—in the sense of how things have evolved over time—matters. For example, in Mongolia, current attitudes about mining sector policies are rooted in the experience with the country’s first major mining operation.

Some of the key economic dynamics and realities of a country and their links with politics can be opaque and tend to be little documented—often despite the availability of a large body of general economic analysis—while sometimes being covered in existing academic work. Depending on the problem being analyzed, it can be relevant at a minimum to outline the degree to which an economy is competitive versus being controlled by a narrow set of insiders. Such an exercise can often be done using publicly available sources, including interviews and official records. Similarly, the extent to which corrupt practices affect a sector or policy area can remain difficult to pinpoint in the absence of an official investigation; but comparative indicators, such as those compiled by Transparency International, as well as perception surveys can help highlight to what extent stakeholders perceive problems. These data can be used alongside other information to analyze prevailing incentives and the likely obstacles and opportunities for engagement.

For the road sector, analyzed in the Sierra Leone and the Philippines chapters, it was important to be attentive to how funding for the sector was being controlled as well as whether actual construction and maintenance kept pace with resource allocations made. For power sector reforms, as illustrated by the Dominican Republic and the Zambia examples, considering the current set of winners and losers from existing power tariffs was important, as well as thinking about which actors could gain the most from changing the status quo. In a resource-rich country, such as Mongolia, the nature and timing of contracts with major investors was a key policy issue, and the specific electoral incentives and the way they shaped the programs used in political competition also played an important role. For decentralization, and for subnational service delivery and infrastructure development, the role played by national-level politicians in directing the allocation of resources emerges as an issue to be analyzed and is particularly important in the Papua New Guinea, the Philippines, and Sierra Leone cases.

To understand political drivers of decision makers, evidencing can take a number of approaches. A closer look at the governance structure of state-owned enterprises and their political connections is part of the analysis in the Dominican Republic and Zambia. In different ways, the Morocco and Papua New Guinea chapters indicate the important contributions that surveys can make. Surveys help to corroborate and nuance, but in some instances they also contradict prior assumptions about citizens’ preferences and their views and familiarity with policy issues and processes (in the case of Papua New Guinea). Greater attention to vote buying, the specific forms it takes, and the consequences it has for the way public funds are allocated to particular localities informs the Papua New Guinea and the Philippines chapters.
Some streams of recent PEA include experiments and other quantitative techniques that have only recently been applied to developing country settings (see, for example, Keefer and Khemani 2012; Vincente and Wantchekon 2009). Such efforts deliver interesting new data, such as data on patterns of vote buying or the allocation of service delivery across local units of government, and can help drill into the relationship between political strategies and the allocation of development efforts (as used in the Papua New Guinea and the Philippines chapters).

Inevitably, trade-offs need to be considered. Typically, within the resources and time available, trade-offs have to be made between the breadth and depth of the analysis, as well as on what to focus in depth. Generating primary data through a survey or tracing in detail how and to what extent fiscal resource allocations are influenced by political rather than technical considerations takes time and resources, as does an analysis that seeks to carefully dissect the role of particular stakeholders around state-owned utilities and their management. Given that the overall purpose of the analysis is to inform development interventions, trade-offs should be made with a view to issues and questions that are most critical for the operational design or approach. Furthermore, because the incentives of actors in regards to specific policy issues and sectors are frequently derived from broader political economy dynamics, the analytical net should not be cast too narrowly.

However, such trade-offs are less sharp if different pieces of analytic work are considered not in isolation but rather as contributing to a body of knowledge about a particular country, sector, or set of issues. The design and implementation of a lending operation typically stretches over two to five years and even more when there is a long-term engagement in a certain sector. So in principle, teams often have an opportunity to incorporate political economy perspectives into multiple pieces of analytic work over time.

**Policy Implications of Political Economy Assessments**

Consistent with the discussion in the introduction of this chapter of the limitations of technocratic approaches, each of the eight cases shows in detail how political economy drivers undercut “best practice” policy recommendations. One way or the other, technocratic recommendations were at variance with the incentives and constraints confronting politically powerful actors. In response to this challenge, broadly speaking, two sets of options are available. As figure 1.2 illustrates, these options can be considered as a spectrum that includes various intermediate points. At one end of the spectrum is the option to accept the existing set of political economy incentives as given and to seek out feasible options for reform within that context. At the other end of the spectrum are pro-active efforts to expand the available reform space through actions such as multistakeholder engagement, with the aim of altering the relative influence of different stakeholders and hence expand reform possibilities.13

In settings where most influential stakeholders are opposed to far-reaching reforms and where repeated efforts to adopt far-reaching governance or policy
reforms have failed, the focus might usefully be on the left-hand side of the spectrum. In other situations, there may be opportunities as well as a need to consider engagement more toward the right-hand side of the spectrum. When the development value added of engaging in modest, incremental progress is very small, the only useful alternative to exit might be to engage proactively to expand the reform space, with an understanding that such an approach implies working against the grain and that progress is uncertain. Opportunities may still exist to combine this approach with a continued search for entry points that are more consistent with the incentives of key stakeholders. For example, even politicians who are focused on controlling power often need to demonstrate some development results, or there may be opportunities to foster a consensus among stakeholders that allows progress in a specific domain even while the broader political situation remains fluid and contested.

Approaches from across the spectrum can also be used in complementary ways. For example, adapting reform design to political economy constraints can be combined with encouraging greater engagement of hitherto excluded stakeholders. More toward the left-hand side of “adaptation,” but adding a more deliberate engagement, are approaches that seek to take into account political cycles as well as windows of opportunity and that seek to time engagement and reform proposals accordingly. More toward the side of proactive engagement are efforts to enhance transparency and to stimulate or deepen domestic debates about policy issues.

A second dimension on which PEA can provide insights is whether a proposed policy solution is likely to be robust given continuing political economy challenges. In the case of Zambia, the resulting strategic advice was to back away from far-reaching efforts to restructure the power sector as a whole that included sector-wide tariff rebalancing. Instead, the Zambia reformers focused more narrowly on agreeing on private provision and increased tariffs for electricity supplied to the mining sector; broader tariff reforms came later. In Papua New Guinea, changes were made in formal institutional arrangements for transferring resources to local levels, with the intention of getting more money to the poorest communities. But the PEA found that the changes were not robust and did little in practice to alter the incentives and the resource flows. The analysis suggested that reforms that strengthened transparency and feedback mechanisms between members of parliament and local citizens and that targeted funds directly to the...
lowest levels of local government would be more effective in addressing the underlying political economy incentives.

Table 1.3 summarizes the policy recommendations made in the case studies. The recommendations generally incorporated a combination of options for politically informed responses.

<table>
<thead>
<tr>
<th>Country and focus</th>
<th>Proposed, politically informed response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Politically responsive policy design (second best)</strong></td>
<td>Enhanced information on policies and options</td>
</tr>
<tr>
<td>Mongolia: mining resource boom</td>
<td>Consider engaging in reform options preferred by local stakeholders even if these contravene perceived best practices.</td>
</tr>
<tr>
<td>Morocco</td>
<td>Create innovative social programs to support poorest to be introduced in parallel to subsidy reforms.</td>
</tr>
<tr>
<td>Dominican Republic: electricity</td>
<td>Prioritize professionalization of electricity distribution companies over price adjustments.</td>
</tr>
<tr>
<td>Zambia: electricity and telecommunications</td>
<td>Narrow the sectoral reform agenda; focus on those reforms that enjoy support of influential stakeholders.</td>
</tr>
<tr>
<td>Ghana: commercial agriculture</td>
<td>Enhance mutual confidence around rules of the game for access to land via multistakeholder consensus-building process around local benefits of incoming commercial agriculture investment.</td>
</tr>
<tr>
<td>Sierra Leone: local levels: roads</td>
<td>Redirect resources toward local levels given greater opportunities for accountability for both general funds and roads.</td>
</tr>
<tr>
<td>Papua New Guinea: local infrastructure</td>
<td>Target grants directly to ward level rather than to district level.</td>
</tr>
<tr>
<td>Philippines: local roads and health</td>
<td>Roads: target allocations based on precise criteria. Health: provide comparable public information on health delivery performance across localities.</td>
</tr>
</tbody>
</table>
Considering first the politically responsive policy design options, two broad approaches are evident:

- A focus on incremental policy reforms that add value developmentally and are likely to enjoy the support (or at least not the active opposition) of politically powerful constituencies. This option is exemplified by the proposal to reach an accord with Zambia’s copper mining companies to increase the prices they pay for electricity to a level sufficient to support new investment in electricity generation capacity.

- A focus narrowly on actions that can be implemented straightforwardly within or by the government rather than seeking major structural changes. This approach is exemplified by the proposal to invest in capacity building of the Dominican Corporation of State Electricity Companies. These recommendations are underpinned by careful analyses of why key stakeholders might be willing to support these particular improvements.

In both cases, the proposed approaches combine considerations about feasibility with considerations about finding solutions that are robust and meaningful.

Turning to efforts to expand reform space, a common thread in almost all the cases is a call to use demand-side approaches to empower stakeholders who have an incentive to seek better development performance. As table 1.3 underscores, this approach can be done through a combination of information strategies and engagements to strengthen stakeholder participation. In doing so, it is important to recognize that a number of easy assumptions about how greater access to information would translate into better governance have been shown to be inconsistent with real-world experience (Khemani 2007; see also Booth 2012). Further research into these causal links is ongoing. From a political economy perspective, better information should be an important asset for fostering political incentives in favor of development objectives. However, rather than as a complete solution on its own, better information needs to be seen as complementing the other key implications: identifying second-best policy solutions that are more compatible with prevailing incentives and capabilities within government and, wherever possible, leveraging development-compatible interests of other stakeholders.

Specific approaches suggested by the cases assembled in this volume include the following:

- Provide user-friendly information that can better enable citizens to assess the performance of local political and bureaucratic leaders in areas of their concern. Examples include comparative information across locales on the quality of health services (in the Philippines); information about which localities are provided resources for community-level infrastructure and about institutional opportunities to request projects (in Papua New Guinea); and, more broadly, information to citizens about the benefits and costs of different policy choices and the effectiveness with which public resources are being used (in the
Dominican Republic, Mongolia, and Morocco). Furthermore, in the Mongolia case, the proposal targeted expanding domestic capacities for policy analysis to establish a more continuous and more locally credible source of relevant policy assessments and information for political as well as technical debates.

- Engage affected citizens in participatory processes on sectoral reform by, for example, building consensus for the benefits of new commercial agricultural investment and at the same time strengthening participatory processes for including local stakeholders with the ability to veto or disrupt investments in commercial agriculture (in Ghana) and sensitizing users of electricity and telecommunications services to the costs of the status quo and creating new avenues for them to participate in dialogue on reforms (in Zambia).

- Strengthen the capacity, accountability, and authority of democratically elected local governments. The Philippines case proposes to link resource transfers from the center to performance through the use of greater participation and transparency benchmarks. The Sierra Leone case argues that gains in government capacity are more likely at local levels, where populations are more homogenous, with correspondingly fewer distortions from regional and ethnically based political contestation.

These approaches can be complemented by “supply-side” initiatives that would constrain the channeling of resources predominantly for short-term political gains by defining more precisely the possible uses of the resources transferred from the center. For example, the supply-side initiative would target community infrastructure financing in Papua New Guinea by sending it directly toward the lowest level of government rather than the more encompassing district level. And in the Philippines, the suggested approach is to set very precise criteria for allocations of funding for road construction and maintenance.

The mix of recommendations combines strategic nuancing of what policies and institutional changes are likely to be feasible and deliver development results as well as where, when, and how broader stakeholder engagement can make significant contributions. The mix brings to the forefront a search for viable second-best or out-of-the-box options that are aligned with country and sectoral realities, and it modulates general ideas like transparency and multistakeholder engagement for a specific context, highlighting what it would take for these approaches to work. For example, although transparency is being widely advocated, much of the information that becomes available to citizens goes unused. What matters is that the information is sufficiently focused to generate traction on policy issues. This need for usable information is why the Mongolian assessment complemented its call for better policy analysis with a strong focus on building the capacity of nongovernmental actors to generate and use such analysis and why the Moroccan and Zambian analyses—each in different ways—advocated putting information on the actual costs of the status quo into the public domain as a way of facilitating greater demand for reforms to emerge.
From Recommendation to Action

Any analysis only affects what happens on the ground if key actors are aware of the findings and implications and are able and willing to act on them. To get from diagnosis and recommendation to action with problem-driven PEA, each of the following three links in a causal chain needs to work:

- First, and as discussed in the previous sections, the PEAs need to meet a benchmark of quality. They need to have diagnoses that are credible, and they need to suggest recommendations that are feasible to implement.
- Second, as also mentioned above, assessments need to be available to practitioners and stakeholders and incorporated into dialogue on policy formulation and implementation.
- Third, the recommendations need to be taken up as part of the actions that follow and to be used in a way that actually influences the design of projects or the nature of the policy dialogue rather than just broaden awareness about politics.

Meeting the Quality Benchmark

To begin with the first link, as discussed in the second section of this chapter, not all PEAs over the past 5–10 years have adequately met the necessary quality benchmark. Sometimes they have been overly general. Sometimes they have been strong from a research perspective, but lacked practical policy recommendations. Sometimes their conclusions have been overly negative; they have shown why political constraints are likely to block the implementation of desired policies but have not suggested ways to influence and change this situation. Doubtless, these shortfalls are a continuing challenge, at times because of mismatches between the expected scope and available budgets for analytic work and at other times because of the difficulty in identifying the right skills and expertise for problem-driven analysis. Doubtless, the case studies included in this volume are hardly perfect. That said, as table 1.3 summarized, all of the cases assembled in this volume made a serious effort to propose credible and feasible recommendations for action. As argued in this chapter, learning how to meet the criteria for quality analysis and operational relevance is accumulating and is leading to better results. This learning includes a significant emphasis on identifying opportunities for constructive engagement—both directly with decision makers and the goals they care about and with a wider range of stakeholders.

What has been the follow-up on the recommendations made in the eight case studies? Answering this question takes us to the next two links in the chain: availability and uptake. To understand how these links played out, some background is needed on the organizational setting within which the case studies were embedded—the World Bank.14

The World Bank has an extraordinarily diverse mandate. It is often still perceived to be staffed principally by economists and engineers who are preoccupied
only with economic growth. In fact, it has evolved into an institution with global expertise covering a wide range of sectors and issues relevant to development: education, health, governance, the environment and climate change, and a range of others have all become part of the Bank’s diverse areas of activity. In response to this diversity, the Bank has been organized in a decentralized way. Within broad parameters set by the organization’s management, both the design of new initiatives and their implementation were delegated. The effort to mainstream political economy was no different.

Management provided a signal that this mainstreaming was desired, including incorporating support for political economy diagnostic work into the Bank’s high profile Governance and Anticorruption strategy.15 Follow-through on undertaking political economy work, along with its dissemination and uptake, was left to staff. Specifically, deciding whether and how to disseminate the findings and to implement recommendations arising from PEA has been left to country management teams and sectoral staff. Country teams have been tasked with developing the Bank’s strategic priorities in its country program and the overall dialogue with the government, and sectoral staff members have been tasked with the design and implementation of sector-level operational programs.

Making Political Economy Work Available

For any study to have an influence, it must traverse the second link in the causal chain. The study needs to become part of a conversation involving those responsible for designing and implementing development operations. But the choices for how broadly to disseminate PEAs are not straightforward, even for those studies that meet the benchmark of quality.

Frequently, PEA is treated as sensitive and confidential. In a number of instances after reviewing the analysis, governments themselves have been highly reluctant to put any critical analysis into the public domain. One intermediate option agreed to by World Bank staff members and relevant government counterparts in some cases has been the distribution of a limited, largely informal version of a PEA study. Other work has been shared more broadly, sometimes after removing some of the content that was considered particularly sensitive. Sometimes sensitivity has been less, and applied PEA work has been published as chapters in World Bank Country Economic Memoranda and Public Expenditure Reviews, as well as in notes and working papers by academics who carried out the analysis and occasionally by World Bank staff members.

Reports can raise sensitive issues, such as (a) the way in which a few individuals or groups control large swaths of economic activity in a country or a certain sector, (b) the fact that politicians use public funds and channel public contracts to pay back those supporters who funded their election campaigns, or (c) the fact that politicians have limited incentives to pursue improvements in service provision because they rely on ethnic loyalties as their main electoral strategy. World Bank country teams in turn face a strong incentive to maintain a good relationship with the government of the day; without such a relationship, programs may become stalled and funds may be difficult to disburse.
At the same time, concerns about the sensitivity of PEAs can be exaggerated. As discussed earlier, many analyses focus on systemic incentives rather than particular “bad individuals.” The PEAs seek to identify policy recommendations oriented toward suggesting pragmatic ways forward. Importantly, findings can also be helpful for governments if they are interested in making reforms happen. In some instances, recently elected governments have been happy to embrace PEA findings, considering these helpful for moving forward on their new agendas. Also, as a number of cases in this volume show, including Mongolia, Morocco, Zambia, and others, PEAs can help World Bank teams better understand the constraints that governments face and, in turn, can help to devise policy approaches that are better adapted to engage with these constraints.

Full publication has some advantages over more informal circulation. In particular, findings are more continuously accessible to a wider range of stakeholders, which can promote greater uptake over time. It also makes studies more accessible to other agencies and researchers interested in building on what has been done. Hence, formal publication promotes learning, accumulation of knowledge about the specific development challenge addressed, and improvements in quality. Among the eight cases assembled in this volume, a few have been made public previously, including findings for the Dominican Republic and some related work on Mongolia and on Sierra Leone. Most other studies in this volume have been circulated informally among World Bank teams, government counterparts, and various other stakeholders.

Overall, there are clear challenges related to traversing the second link, but these are surmountable in most instances and perhaps more so than has been past practice. Depending on the context, potential sensitivity can be defused in many ways, ranging from the language used, to publication by the consultant team rather than the development agency (thereby reducing concern about an agency report’s official status), to sharing of key insights and messages in briefings with a range of stakeholders rather than sharing of all the underlying detail. Defusing sensitivity is important, so that the issues raised can be put on the table. At a minimum, the results of PEAs need to be made available to those involved in decision making, including the staff of a development agency as well as other stakeholders (reformers within government, citizens interested in seeking better public services, and others). Circulation of the study thereby allows the stakeholders to use the results to explore how better development outcomes can be achieved even in the face of political economy constraints.

**Ensuring Uptake**

Only when the quality and availability links have been adequately addressed can the crucial test for PEAs come into focus: are their recommendations incorporated into operational programs? The case study narratives of what happened subsequent to the analytical work can be grouped into three broad categories: (a) those where uptake was relatively comprehensive and affected the Bank’s engagement with the country as well as with specific sectors (Mongolia and Zambia); (b) those with evidence of at least some uptake (the Dominican Republic,
Ghana, Morocco, and Sierra Leone); and (c) those where the effect has, at least so far, been more limited (Papua New Guinea and the Philippines).

Consider, first, the more comprehensive Zambia and Mongolia cases. In Zambia, as chapter 5 details, the analysis had a substantial effect on both country and sectoral strategies. At the country level, the political economy diagnosis contributed to a far-reaching reformulation of strategy with a focus on less ambitious but more achievable goals. The approach to engagement shifted in a similar way in both the electricity and the telecommunications sectors. As per the recommendations summarized in table 1.3, sectoral reforms backed away from dialogue around far-reaching efforts at restructuring. Instead, there was an enhanced focus on partial reforms prioritizing enhanced engagement with potentially influential stakeholders. In both sectors, the result was to unlock a previously stalemated sectoral engagement (for example, by facilitating new investment in electricity generation to supply Zambia’s mining sector). However, as a controversial privatization of the telecommunications parastatal signals, sometimes there were unintended consequences.

In the face of an imminent mining sector boom in Mongolia, the analysis supported the reorientation of the country team’s engagement. It helped the team take advantage of a window of opportunity during the 2008–09 worldwide financial crisis to promote the adoption of legal constraints on fiscal management aimed at reducing volatility. The analysis contributed to a mining sector specialist being based in the country office (the first time the Bank had ever done so anywhere) to come to grips with key trends, stakeholder interests, and other concerns affecting the development of the mining sector. Perhaps most important, it laid the foundation of the Bank’s greater engagement with nongovernment stakeholders. The analysis led to the crucial decision to support the development of a local think tank dedicated to policy issues about managing a resource-rich economy and about engaging with civil society on the monitoring of procurement processes. However, a key limitation has been the fact that although the World Bank’s engagement and outreach built on findings from the analysis, the policy solution that was supported—the Fiscal Stability Law adopted in July 2010—remained rather grounded in a first-best approach. This approach proved not to be robust in the face of continuing stakeholder incentives to spend increasing fiscal resources and to incur deficits and risks from government guarantees.16

In five countries, the political economy diagnostics made valuable contributions to operational design and engagement at the sectoral level:

- In the Dominican Republic, the political economy work led to a refocusing of the approach to electricity sector reform, which somewhat paralleled the shift in Zambia: the focus moved from a broad effort at sectoral restructuring to a narrower effort to strengthen the management and capabilities of the electricity parastatal and to seek to build reform constituencies at the national level.
- In Ghana, the sectoral team responsible for designing a new commercial agriculture operation was enthusiastic from the outset about the potential
value added of the political economy work. It was supportive of the recommendations of the sector analysis and drew on them to foster dialogue among stakeholders on the benefits and costs of different design options for a US$64.5 million loan to Ghana for a commercial agriculture project.

- In Morocco, the analysis was conducted with an explicit demand from the government to support efforts to facilitate subsidy reforms and findings fed into the government’s communications campaign.
- In Sierra Leone, the principal consequence of the political economy diagnostic was a reintensification of efforts to support decentralized levels of government, primarily focusing on roads.

In the third group, in the Philippines PEAs were undertaken across a range of activities, including the way health and road services were allocated at local levels. Some of this work was directly commissioned by the country team to inform not only debates within sector teams but also a range of local stakeholders about which development challenges were amenable to reforms and how these could best be approached. The specific piece of analysis included in this volume was more experimental and intended to stimulate a discussion, which is still ongoing, about the challenges related to supporting improvements in service delivery at subnational levels of government. Similarly, the Papua New Guinea analysis has provided an important corrective to the assumption that new formal procedures would empower communities to decide which infrastructure projects were priorities. At the same time, development agencies and local stakeholders have yet to decide and agree on how best to pursue and provide support for further reforms.

Some Wider Lessons

Supporting development through external public funds, policy discussions, analysis, and projects has been a challenging and, at times, frustrating endeavor ever since development aid emerged on a larger scale in the 1950s and 1960s. As argued at the outset of this chapter, the initial reaction to the particular challenges posed by “messy politics” had been to strongly emphasize economic and technical analysis and advice. However, political economy drivers continuously influence where and how development progress becomes possible and therefore also influence the effectiveness of external support.

Recent political economy assessments have begun to open up a new understanding of such dynamics in developing countries and the implications these dynamics have for development prospects. The recent PEA work brings a stronger focus on how politics and economics interact to shape particular development issues, such as whether and how a society copes with sudden mining wealth, what it takes to develop new commercial agriculture, or how likely it is that funding for roads leads to improved infrastructure. But it remains challenging to combine these insights from PEA with a more immediate usefulness to influence actual operational design and the policy dialogue on specific issues.
An overarching contribution of PEA is that it has begun to change the mind-set of development practitioners. Indeed, in discussions within the World Bank about proposed operations, management now routinely questions whether the hoped-for results have taken political economy realities into account. The eight case studies in this volume suggest that questions about feasibility and about whether specific interventions are likely to be effective at achieving progress are amenable to systematic analysis. But the case studies also suggest that there is a long road to travel before the new approach can decisively take hold.

Seven key lessons emerge from this overview of experiences assembled here.

Lesson 1
To be operationally useful, PEAs need to focus on specific development problems. PEA can only influence how development efforts are carried out if it directly engages with the specific and practical challenges that emerge—be they related to improving a country’s roads, providing better delivery of health services, developing a mining sector that promotes a society’s long-run welfare, or fostering equitable service delivery within an evolving intergovernmental system. The aim is to provide practical advice for the design and management of development engagement and interventions and to set out findings and recommendations that are relevant and specific as well as clearly grounded in the findings of the analysis.

Lesson 2
PEAs need to be anchored in a substantial understanding of the country-level drivers of decision making. Many political economy incentives are ultimately linked to the pursuit of political support: for example, to win or maintain political positions and power; to control lucrative parts of a country’s economy, balanced by the need to maintain or win popular support among groups of citizens; and to strike deals with other power holders. Thus, country-level political economy drivers affect each and every sector and policy issue in some form. As almost all of the eight case studies underscore, the incentives of front-line decision makers are shaped by the broader political and institutional environment in which they operate.

Lesson 3
Therefore, a third lesson emerges from the combination of lessons one and two. PEAs should connect the dots, that is, they should link the specific analysis of a development problem with the systemic analysis of the broader country-level dynamics. To be sure, the balance between the overarching and the specific analysis can vary depending on the purpose at hand. If the aim is to offer broad guidance to the development of a country strategy, the problem can be defined in broad terms, for example, the challenge of governing Mongolia’s natural resource boom. Conversely, if the aim is to help find a way forward on a very specific operational problem, such as the provision of local health services in...
the Philippines or of community infrastructure in Papua New Guinea, then the country-level part of the diagnostic can be much lighter, and often primarily drawn from secondary sources. But without both some anchoring from the bottom up and support from the top down, a PEA almost certainly falls short of its potential.

Lesson 4
A political economy perspective and the way it is used must contend with the evolution of realities on the ground. To be sure, in some settings fundamental drivers remain stable for extended periods even if noisy day-to-day politics create a facade of constant change. But in most settings and for most issues, political economy constellations continually evolve—sometimes gradually, sometimes at a faster pace, or sometimes in the form of decisive turning points—rather than being stable. In Mongolia, increased revenues from the mining sector are gushing in. Across developing countries, the boom in natural resources that has taken place since the early 2000s, as well as trends such as urbanization, demographic shifts, and the arrival of affordable mobile communications, are generating important changes in the political and economic drivers, with numerous other changes being triggered by these wider trends. Other changes may result from more specific events, such as the sudden death of a leader (for example, Meles Zenawi of Ethiopia) or the emergence of new political players. Such constant evolution does not render PEA a futile endeavor. Rather, it implies that PEAs need to be situated in a specific time period and need to incorporate a sense of dynamics and likely trajectories or scenarios when providing advice. For teams seeking to have PEA inform their approach, this lesson implies a need to revisit earlier analyses when a new situation arises and often a need to update the information and the implications derived from the analysis.

Lesson 5
The fifth, sixth, and seventh lessons focus on process. Lesson five suggests that for PEAs to have an impact, they need to be done in close coordination with the country and the sectoral teams responsible for addressing the problem being considered. Among the eight case studies, the assessments for which the collaboration was closest (the Dominican Republic, Ghana, Mongolia, and Zambia) were also the ones that had the most significant effect. Collaboration is greatly facilitated when the analytic team, the country, and the sector team jointly discuss and clarify expectations ex ante and then consider findings and implications as to what might be done differently after the analytic work has been carried out.17

Lesson 6
PEA needs flexibility with regard to the accessibility and the involvement of a wider range of stakeholders. Some governments support this type of analytic
work as assisting a constructive dialogue among stakeholders. Among donors, some staff members argue strongly that PEAs should be joint initiatives, especially insofar as these assessments comprise the basis for changes in operational approach. But others argue that for donor staff members to be effective partners, they may need opportunities for learning about the environment in which they are working and a safe setting in their organizations in which to explore questions that might previously have been perceived to be taboo.

**Lesson 7**

PEAs are worth doing only if they affect how donors act, and this is an ongoing challenge. Effective engagement on the ground may require donor agencies to reorient organizational skills and resources. Many of the policy proposals laid out in table 1.3 are not ones that country and sector teams can readily implement, given time and budget constraints and existing skill mixes. Key actions highlighted in table 1.3 include (a) seeking greater outreach through a country’s public media to explain the benefits of particular reforms and to debate alternatives; (b) integrating social accountability actions into an operation, for example, by helping to develop the capacity of civil society organizations for monitoring public contracts; and (c) intensifying discussions with multiple factions in parliament to build a greater understanding of policy choices and to better understand parliamentarians’ incentives and concerns. These actions may require dedicating staff time to implement them as well as integrating new skills into sector teams and country offices in ways that keep technical experts closely involved but better leveraged in their ability to be part of stakeholder engagement and outreach.

Also, it can be challenging for sector teams to adopt suggestions that point to nonorthodox approaches. Giving up on the idea of “independent” regulatory agencies, which tend not to be truly independent given political economy constraints, or accepting that there is a broad stakeholder consensus in favor of government ownership in certain sectors can be challenging for technical specialists—and all the more so if the suggestions are made by a team of political economy experts rather than by leading experts in a particular field. Consequently, building greater knowledge about how PEA perspectives have helped more effectively address similar problems in other countries will be crucial to developing suggestions and solutions that find more ready acceptance.

**Looking Forward**

Looking forward, as PEA matures as an analytic perspective, it is important to consider how it can be productively combined with other efforts to rethink and reshape development approaches to achieve better solutions. For example, the growing interest in impact assessments can be helpful in identifying missing links that are related to political economy drivers. On the action side, PEAs can contribute to efforts to identify and implement agendas for change that use “rapid results” methodologies. Political windows of opportunity for reforms, such as the honeymoon periods of newly elected governments, the presence and
relative influence of a reformer in government, or even a fiscal crisis, are typically of limited duration. Therefore, a politically smart engagement will frequently involve ways of gaining traction quickly, followed by more long-term efforts to develop a sensible policy agenda or to strengthen the public dialogue about necessary improvements.

In a broader lens, a political economy perspective is crucially important for some of the emerging frontier issues to achieve inclusive and sustainable growth and development. Within many countries, socioeconomic inequality has increased in recent years, and the collective risks from environmental degradation are rising. Political economy perspectives are an essential ingredient to any efforts at mitigating and reversing such trends. More broadly, politics—and the way it interacts with economic interests and incentives—is a key ingredient in how societies function, how they allocate and use resources, and whether and how they enable citizens to prosper both individually and collectively.

**Notes**

1. In addition, the World Bank’s Africa region is in the process of undertaking a meta-review of PEA done in the region over the past five years, and the contributing donors of the Governance Partnership Facility have commissioned a review of PEA work funded from the facility.

2. A number of studies have sought to take stock of these efforts, including DFID (2005), Dahl-Østergaard et al. (2005), NMFA (2010), and OECD DAC (2008). Further reviews are currently being developed. Other agencies such as AusAID are newly developing political economy frameworks—building on existing experiences—for use within their agencies.

3. In 2008, following the adoption of the Bank’s Governance and Anticorruption strategy, these donors came together to establish a major trust fund at the World Bank, the Governance Partnership Facility.

4. The process to select what would be presented at the conference was robust, with the decisions unanimously agreed by panels of four to five experts from the Bank staff. Not all studies presented at the conference are included here. One study (commercialization of agriculture in Ghana), not originally presented at the conference, is additionally included in this volume.


6. A problem-solving approach is not unique to this type of analysis, but it has been used in a variety of disciplines. This approach built on the earlier experience by DFID, Sida, and the World Bank with applying broader, more open-ended tools that often were thought to result in too little concrete guidance for action.
7. These categorizations are based on the U.S. nongovernmental organization Freedom House and Polity IV Project assessments, the two most widely used comparative assessments of regime types. The two sources differ somewhat for several of the cases.

8. The focus on this link between politics and economics also distinguishes the PEA carried out by development agencies from the political monitoring typically done for foreign policy purposes.

9. For some important analyses of clientelism, see Robinson and Verdier (2013) and Roniger (2004).

10. It is important to note that applied PEA can have the express purpose to capture, systematize, and set out issues and information that are important, but for some, hard evidence cannot be obtained within the frame of analytic work. For example, in the absence of a court case, allegations about illicit activity frequently cannot be proven. Depending on the issue at hand, the alleged actions may be part of a syndrome of reform bottlenecks that should not be ignored, but rather, if plausible, the presence of allegations should be noted, with due recognition that they are unproven.

11. In addition, new staff members have typically been left to re-accumulate these insights over a period of time that can easily be equivalent to about half the time spent in a given position.

12. In particular, in many places it is challenging to track who holds interests in which companies or who owns what tracts of land and how, in turn, these stakeholders relate to political decision makers. In some situations, important interests may be illicit and therefore intentionally hidden, such as the role of drug cartels in Central America or the globally widespread practice of kickbacks paid as part of public contracts and used to fund political campaigns or to line private pockets.

13. See also Albert Hirschman’s earlier distinction between projects that are “trait taking” versus those that seek to be “trait making,” that is, fitting easily into an existing social and cultural structure versus seeking to change aspects of the existing structure. See Hirschman ([1967] 1995, chapter 4).

14. The organizational arrangements described here are the ones that prevailed when the cases were written—before an internal reorganization that was launched in late 2013.

15. The Bank’s Governance and Anticorruption strategy was adopted in 2007, and an update was issued in 2012.

16. The issue that this policy solution might not be effective was also flagged in the original analysis, but there was no subsequent exploration of alternatives or adjustments.

17. This collaboration also entails the need to find the right mix of skills and experience for the analytic team. For example, experts on a particular country often lack knowledge of specific sector problems.

18. Many of these ideas originate in the business literature and some even in military thinking. Whether these ideas can be applied to development problems involving a different range of stakeholders and institutions given political economy realities needs to be considered in each case.

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