



The Political Economy of Reform: Moving from Analysis to Action

A Global Learning Event

- Final Report -

Background

In June 2010, a two-day workshop entitled “The Political Economy of Reform: Moving from Analysis to Action” was held in Washington, D.C. with the goal of exploring the roles that political economy analysis can play in informing and guiding real-world reform efforts. The event brought together participants from various sectors: representatives of donor organizations, senior journalists, private firms active in development policy and practice, academics and applied researchers, and World Bank senior operational staff. The keynote address highlighted *five frontiers of political economy analysis* and set an ambitious agenda for the ensuing presentations and discussion. These five frontiers include the following:

- 1) **Gaining a real-world sense of what is possible, and expanding the feasible space for reform:** Operationally relevant political economy analysis that is regularly updated to capture relevant changes on the ground can dynamically achieve two sets of goals. First, it can shed light on the feasible space for reform. Second, and more importantly, it can actively engage and support actors to surmount what may seem unfeasible in order to make change happen.
- 2) **Knowledge-driven change:** Once actionable political economy analysis is produced, how can it translate into actual reform? The type of dynamic knowledge that has local legitimacy and ownership would not only identify the actual agents of change, but also catalyze and nurture their collective capacity for action.
- 3) **Challenging the knowledge production process: Political economy analysis for whom, by whom, and how?** Successful and sustainable operationalization requires a paradigm shift on three dimensions: a) **the client:** the final beneficiary of the analysis should be the change agents on the ground and not the donor agencies; b) **the producer:** political economy analysis with potential for triggering reform ownership should be undertaken by local analysts (perhaps with the support of international experts); c) **the process:** instead of a passive research output, analysis commissioned and produced locally for the change agents needs to be organically integrated upstream in their own work.

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- 4) **Operationalization:** The subsequent step following an understanding of why political economy is important and what it can contribute to change processes on the ground entails developing concrete operational tools that reform managers can use to translate findings into action on the ground.
 - 5) **Institutional recognition and mainstreaming:** So far, political economy is not mainstreamed in the development sector, and, given the range of projects, is quite limited in scope. Recognition of the fact that politics matter is long overdue and imperative. A deep understanding of the underlying politics of reform is crucial for successful policy design and implementation.

This paradigm shift towards a dynamic political economy of reform triggers several policy implications. The institutional role of donors needs to be redefined in terms of *support recipients*.

Social entrepreneurs, civil society organizations and reform leaders should become *the main focus of institutional support*. Their vision, combined with tools of empowerment, information asymmetry correctives, and collective action solutions, should increase the likelihood of successful and sustainable reform.

Policy and practice implications emerging from the event

Efforts were made to draw out the practical and policy dimensions from the many lessons that emerged from the workshop discussions. These policy and practice implications are organized under the five frontiers of political economy analysis described above.

1) Gaining a real-world sense of what is possible, and expanding the feasible space for reform:

- *Using political economy for discovering and nurturing the possibilities for action:* Some participants expressed concerns about the fatalistic nature of analyses that usually describe narrow feasibility spaces for reform and underestimate the likelihood of equilibria shifts. On the ground, there are actors however, who, given the adequate tools, can credibly drive such change. Channeling and connecting their voices can redefine feasibility.
- *Reshaping thinking from what is missing to what is there:* There is now broad agreement that developing countries often *lack* robust institutions and resources to promote sustainable development. The frontier of change should encompass precisely the opposite: *the presence* of creative local modes of problem-solving that successfully and vibrantly substitute for malfunctioning states. Harnessing their innovative and inspiring energies, and amplifying their demonstration effect within the international community will shape the future.

2) Knowledge-driven change

- *Working towards a dynamic political economy:* Most participants agreed that static desk analyses have minimal impact on driving development processes. *Dynamic* political economy analyses entail two stages: first, map the landscape, identify the rules of the game and feasibility spaces, and set up

mechanisms for continuous political context updates; second, and more importantly, change the rules of the game by connecting agents.

- *Coalition building as the political economy of collective action on the ground:* The discussion emphasized the need for and the challenges posed by collective action for reform: 1) building coalitions among drivers of change takes a long time and is an unpredictable process; 2) these coalitions are difficult to sustain even if various stakeholders do decide to sit at the negotiating table at the onset. Collective action is dynamic, and must be cultivated as it evolves over time.
- *Rethinking minimal conditions for action:* Developing countries rarely meet minimal conditions for coalition building and sustainable collective action: 1) a functioning state and reasonable societal and political order; 2) clear dividing lines between state and civil society. Nonetheless, instead of getting mired by a fatalistic view of development, international organizations should promote debates on the goals they intend to achieve. Must there be some order and a functioning state before it can institute reforms, or can reforms be used to enhance order and create a functioning state? Within this tension, we can identify new windows of opportunity for action and shape a fresh strategic vision of development. A political economy approach has a comparative advantage in identifying feasible entry points for reform even in fragile situations (post-conflict recovery setting, for example).
- *Reversing causality:* Political will and a strong civil society are not inputs, but rather outcomes of the coalition building process.
- *Understanding dynamic coalition formation as a prerequisite for policy decisions:* Analytical work on the structure and evolution of coalitions in developing countries should inform donor strategies. Participants have identified key issues that have an impact on collective action potential: a) the identification of a focal point for change; b) communication of clear benefits for potential supporters; c) credibility and legitimacy; d) the expansion of the initial coalition over time to incorporate multiple actors and issues beyond the initial set of supporters; e) the timing of coalition building.
- *Challenging coalition-building myths:* 1) Coalition building *should not be seen as a mature, one-shot process*; 2) Coalitions are *necessary but not sufficient* for self-reinforcing change; 3) *Coalition building can be used for positive as well as nefarious purposes*. Often, coalitions trying to prevent reforms are more successful at solving collective action problems, while progressive interests aggregate themselves with more difficulty.
- *Channeling information flows through technology:* Strategic communication of the reform message should become an integrative part of coalition building efforts. Information technology is transforming the architecture of solving collective action problems and correcting information asymmetries.

3) Challenging the knowledge production process: Political economy analysis for whom, by whom, and how?

During the sessions, participants pondered concrete ways of translating the policy vision into operational realities. Two opinion streams emerged: some participants advocated for *full transparency and broad dissemination of political economy analyses*, whereas others favored a more *incremental process* that would communicate findings first to managers and decision makers, and only over time to a broader audience.

For whom?

- *Actionable information that “unleashes actors of change:”* Knowledge generated through political economy research cannot remain stored on the shelf. From a policy perspective, its most important consequence is supporting change agents’ participation in political life based on such information.
- *Local reform actors as main beneficiaries of political economy analysis:* Intervention within the *formal* institutions and structures has limited impact, given the chronic misalignment of objectives between donors and client governments. International development organizations should allocate equal time to civil society and state counterparts. Related to the issue of credibility and legitimacy of political economy analysis, donors should also work towards increasing its visibility on the ground by directly engaging with organizations that have actual stakes in the development outcomes, e.g., civil society organizations and professional associations.
- *Timing, feasibility and contingent beneficiaries of political economy analysis:* Some participants called for a phased approach for information dissemination in sensitive contexts, with implications for the selection of beneficiaries. First, analysis should exclusively benefit managers and decision makers, followed, over longer time horizons, by a broader dissemination of findings to the public.
- *Information transparency and donor goals:* In between the two camps calling for either full and unconditional transparency of political economy analyses, or for restricted use of findings confined to managers and those who occupy sensitive positions, some participants argued for a goal contingent approach to transparency. Accordingly, the development agency would first need to decide on the primary goal it wants to pursue: succeed in achieving targets, or promote policy dialogue in a given country? The answer to this question will then guide the strategy of information use and the selection of the final beneficiary of political economy analysis.

By whom?

The debate revolved around the question of who has comparative advantage to undertake operationally-relevant political economy analyses: country experts with in-depth local expertise or international consultants?

- *Western-centric research templates versus local modes of problem solving:* The epistemological tools of political economy knowledge production should be further debated and refined. What kind of bird’s eye view do we need for understanding local contexts? Western-democracy / rational

bureaucracy type models, or flexible analytical lenses allowing the possibility for other forms of problem solving modes developed locally?

- *Shifting the focus towards local knowledge - indigenous political economy production:* multilateral donor institutions should shift the input of political economy analyses towards local practice; in some cases, a combination of international and local experts is essential for a deep understanding of context.
- *Identifying unexpected sources of information:* Reform and political economy analysis of the change process often come from unexpected places. Regular citizens, informal networks already existing in societies or country representatives in practice exchange forums can provide on-ramps for operationally-relevant information on the political context.
- *Stakeholder partnerships through information production and dissemination:* One of the practical uses of political economy diagnostics resides in developing partnerships among a configuration of stakeholders who can work together on data collection and analysis, and contribute to the success of reform efforts.
- *Donor role transition - from conjoiner of power and knowledge to identifier of talent and knowledge:* development organizations should transition from their traditional role of information *producer* to that of *broker* of knowledge flows. The convening and connecting organizational power offers a unique opportunity to identify local creativity and integrate it into global flows of shared development experiences. Information intermediation and brokerage will overhaul the entire production process of political economy analysis.
- *Collaborating with other donors:* Most development organizations have already developed tools for political context updates and analysis. A formal or informal platform of knowledge sharing within the donor community can provide a wider base of information collection than simply relying on a narrow pool of local informants.
- *Connecting two types of political economy: methodological toolkit versus in-depth area knowledge:* Actionable political economy analysis entails synergistic insights derived from two distinct epistemological families: on one hand, theoretical core mechanisms, and methods of research; on the other hand, a deep dynamic understanding of the idiosyncrasies of a specific country and reform context. The donor community's role could consist of combining area specific forms of political knowledge with theoretical principles and regularities, and standardizing such information.
- *Creating a laboratory of experimental thinking on political economy:* The donor community, taking advantage of its convening power, could develop and institutionalize a laboratory for brainstorming and experimenting with creative and practical political economy tools that might be codified and mainstreamed for better reform design.

How?

- *From international best practice to good local fit:* The transition from “international best practices” to “good local fit” should be systematically accompanied by a rethinking of the context specific needs of achieving results. Political economy has a comparative advantage in guiding this customization process.
- *Normative reevaluation:* Political economy is uniquely situated to challenge normative assumptions and, in time, adjust policy prescriptions. Some participants emphasized the need for a more sophisticated understanding of the relationship between corruption, rent seeking and social structure, mode of production, and political stability. Dismantling rents, increasing transparency, building coalitions despite their normative clout in the development narrative, can have unintended consequences in some circumstances.
- *Developing an open architecture of development:* factoring in the risk of empowering governments that often stifle civil society, development organizations could have a comparative advantage in harnessing vibrant pre-existing networks that enable information flows on the ground (religious networks, consumer goods markets, mobile telephony, radio and media, etc.).
- *The role of experimentation, trial and error efforts for policy innovation:* If change agents have an active political economy understanding of context, this should allow for constant adaptation and recalibration along the reform path.
- *Redirecting change:* participants addressed the question of policy directionality. Should reforms come from above or should donors listen to the community needs on the ground? The change process, in order to acquire ownership and credibility, should be homegrown. This bottom up approach to development needs to be synchronically accompanied by a multiplicity of decentralized information flows. Such a process would also attenuate the fiduciary risk of donor institutions stemming from development goals perceived on the ground as social engineering.
- *Equipping change agents with tools of political economy and coalition building:* The donors have the capacity to strengthen the capacity of reformers to solve collective action problems, correct informational asymmetries and strategically communicate the costs and benefits of policy change to a wide public.
- *Developing platforms for linking local reformers with other change agents* – Shared practice and modes of problem solving have a multiplier effect against entrenched networks of corruption.
- *Connecting reformers with resources* in order to build capacity and enable them to pursue policy goals.
- *Calibrating expectations about the pace of reform through a political economy of risk assessment:* The majority of participants agreed that the false dichotomy of “transformational versus incremental” reforms needs to be reconceptualized. In most cases discussed during the workshop,

the transformative reforms were but a series of sustained incremental changes driven by local actors. Instead, understanding *the political risks* that incumbents might face when supporting reform efforts might be analytically more useful for gauging the possible scope and pace of change.

- *Risk management:* A government's willingness to implement reforms depends on the level of political risk triggered by the process. Accordingly, the policy question for donor institutions is about changing actors' incentives in support of reform as much as it is about minimizing risk. Oftentimes, donors can engage in constructive risk management, by narrowing the scope and pace of the initial reform: e.g. facilitating a local experiment, limiting it to one particular sector, etc.
- *Negotiating the virtues and perils of transparency:* The participants debated the optimal level of transparency for the political economy production process. Two schools of thought emerged: some argued for full transparency and unconditional dissemination of findings within the broader community of change agents. Others opted for a narrower base of information sharing at both stages of production and dissemination. They offered specific examples of reforms that benefited from some lack of visibility and transparency. In such cases, reformers were shielded from powerful vested interests by keeping a low profile during the change process.

4) Operationalization of political economy findings:

Participants converged on the principle of a more active use of the information produced by political economy work. Here are some tools for operationalization that were discussed:

- *Mapping of actors, incentives, stakes and institutions:* Participants have drawn distinctions among the many types of political economy: 1) a toolkit of building blocks and theoretical mechanisms. This conceptualization of PEA generates the template (or the general framework) that needs to be filled by context-specific information (Who are the stakeholders? What are the preferences? How much power do they have within the system?). There are many available frameworks within the donor community that converge towards this common set of questions. 2) the second type of in-depth country expertise answers the questions raised by the general framework and fills in the blanks. Some participants shared concrete analytical tools that have been used by donors and domestic reformers in East Asia and elsewhere. The comparative advantage of these types of analytical tools lies in the analysis provided on all possible interactions among stakeholders, as well in the identification of reform supporters that would not have been immediately apparent *a priori*.
- *Consulting local elites on alternative reform scenarios:* Coming up with alternative reform scenarios and gaining a real-world understanding of the ways in which these scenarios interact with incentive sets of elite stakeholders has been used as an effective tool for gauging potential support for reform. Experiences that participants shared range from key informant consultative approaches to quantitatively-driven multi-stakeholder modeling. These tools include presenting political economy analysis findings to elite representatives and asking for their feedback on how they think reform efforts would affect them and their constituencies, collecting a range of hard data on the

preferences of various elite stakeholders and relevant groups and using a simulation model to determine what might be considered the most feasible reform option.

- *Tools for collective action* include the following: 1) developing platforms of shared experiences and learning; 2) identifying: a) a coalescing focal point for collective action; b) concrete benefits for supporters in order to motivate them to join the coalition; c) a coherent strategic communication campaign for communicating the costs and benefits of collective action to all participants; 3) using systematic tools to identify the best coalition partners and the right timing for coalition building; 4) using an appropriate mix of information and communications technology for solving information asymmetries and collective action problems.
- *Political context updates*: Reform efforts are often implemented in country contexts prone to unexpected changes that can occur over relatively short time horizons. In the development sector, there is no identifiable standardized practice for generating a continuous stream of information for updating findings of political economy analyses in light of such changes. In contrast, political officers at embassies as well as senior editors and journalists are able to continuously scan their local environments by managing and cultivating relationships with those who are "in the know." Experience has also shown that some enterprising governance and public affairs specialists working for international organizations have been able to provide this type of service to their project teams and country offices. Given the sensitive reform contexts in which development organizations operate, the process of gathering actionable political context updates requires repeated interaction among change agents and key informants. The in-country teams of various development agencies could have a comparative advantage in developing libraries on the political issues of interest to development projects and programs, updated on a regular basis.
- *Monitoring and evaluation*: Once policy changes are enacted, implementation is supposed to contribute to achieving desired outcomes of reform. Deviations at this stage can derail even the best policy prescriptions from reaching their beneficiaries. Some participants from the private sector discussed tools they have used for tracing and evaluating reform implementation on the ground. Examples of specific techniques of monitoring include: 1) identifying on-ramps for political economy analyses relevant to implementation during stakeholder meetings; 2) interjecting the political dimension of technical work; 3) organizing regular learning events and meetings where participants from different countries exchange practical lessons in terms of monitoring; 4) safeguarding the perception of independence of organizations involved in monitoring. In some circumstances, independent third-party monitors manage to establish reputations as "independent" not only from government but also from political interest groups. Participants also raised concerns regarding sources of funding for monitoring and their effects on perceived independence on the ground; 5) use of technology and innovation for being able to trace implementation (i.e. call centers where citizens can promptly file claims, scorecards, devices for monitoring school attendance, innovative geo-mapping, etc.); 6) identification of the appropriate channels of influence on implementation. There were several opinions on this issue: some participants argued for accessing formal institutions for monitoring, whereas others advocated for the role that civil society ought to play.

5) Institutional recognition of operationally-relevant political economy analysis

The participants emphasized two concerns related to: a) the *external* credibility, legitimacy, political nature of development institutions in analyzing and guiding reform processes; b) the *internal* organizational incentives affecting the political economy agenda.

On the role of donors, the debate revolved around the tension between political economy and the explicit mandate of some multilateral organizations to be technocratic and apolitical. The following conclusions emerged:

- *Buy-in among high-level decision-makers:* There is a sense that the concept of “political” analysis might be context sensitive. On the other hand, the impact of corruption and conflict on development outcomes has already entered the mainstream narrative of development, and is accepted as such by policy makers. As part of a coherent communication strategy, high-level events, such as annual meetings of ministers, could serve as information platforms to advocate for the necessity of political economy, and help address disagreements and misunderstandings related to what “political” economy work actually entails.
- *The political nature of donors:* There needs to be a widespread recognition of the fact that donors *are* political entities; the concrete steps of action should therefore focus on standardizing the staffing policies and the tools that would help mainstream political economy work within donor organizations.
- *Legitimacy and credibility:* Political economy analysis and the change processes facilitated by it should be legitimate and credible within the community where reform emerges. This entails a redefinition of the traditional role of donors as top down knowledge and policy prescribers. Legitimacy of operationally relevant political economy can be derived only from collecting, brokering and analyzing information from a multiplicity of sources.
- *Local empowerment:* Donors cannot be the driver of any reform, but once the change agents and catalysts have been identified, they can help correct information asymmetries and provide tools for effective collective action.

On organizational incentives of donor agencies influencing the political economy agenda, the problems and recommendations identified by participants include the following:

- *Challenging fundamental operational assumptions:* the state (the client government) is not necessarily a benevolent actor. Incumbent politicians have career incentives, and are sometimes deeply entrenched in rent-seeking networks. Because governments are currently the primary clients, some members of the donor community suffer from chronic misalignment of means with objectives. The very tools designed to build governance often end up empowering corrupt groups with political clout.

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- *Refining the results approach*: organizational timeframes value rapid deliverables at the expense of real impact on the ground. Moreover, it is often the case that the “results” desired by international organizations are not aligned with those of the client government.
 - *Adjusting incentives for operational political economy production*: The pressure of results delivery in relatively short periods of time might have a perverse result on risk taking (entailed by programs actively incorporating operationally-relevant political economy).
 - *Mitigating/hedging risk aversion*: The donor community needs to question the risk aversion that acts as a disincentive to undertaking political economy analyses. Reforms often take place in insecure environments where fiduciary standards are low. From the perspective of decision makers, the right balance must be struck between using private information responsibly, on one hand, and not apologizing or giving in to political pressures, on the other.
 - *Interdisciplinarity and cross-sectoral integration*: The segmentation of programs in many development organizations impedes multidisciplinary conversations on operationally relevant political economy. The sudden realization that political economy matters for development risks projectizing it, which would then result in the reproduction of a silo mentality in political economy findings. Political economy analysis that is relevant to realities on the ground tends to be cross-sectoral and interdisciplinary and, as such, the projectization of such analytical work should be prevented as much as possible.
 - *Avoiding the danger of narrowly locating political economy work within the organization*: Institutional buy-in of PE work cannot be confined to only one sector or thematic area and requires broader thinking about integration with projects and programs.
 - *Creativity with regard to the funding sources for political economy work*: Participants pointed out practical problems posed by funding operationally relevant analyses, and proposed setting up private funds allocated to such analyses, as a possible solution.
 - *Rethinking the relationship between relatively large donors and smaller development organizations on the ground*: there is a danger of over-burdening bureaucratization if donors expect smaller organizations contributing to political economy work in the field to comply with what may be seen as standard reporting requirements; an organic bottom up approach to accountability and reporting developed first in the smaller organizations and then fed back into bureaucratic processes of larger organizations might be more flexible.
 - *Developing an open culture of organizational learning*: the development community should build an active repository of lessons learnt following reform interventions.