

3. UNDERSTANDING THE POLITICAL ECONOMY OF REFORM

A political economy perspective, as outlined above, requires an operationally-useful conceptual framework that emphasizes the importance of context, power, institutions, actors, and processes. These contextual elements need not be seen, however, simply as risks or blockages to effective policy reform and improved distributional equity. Instead, they can be seen as opportunities if addressed proactively. In this way, the recognition of power imbalances and the policy reform goal of distributional equity need not be irreconcilable. While powerful stakeholders, acting out of self-interest, can impede the progressive allocation of resources and entitlements, the poor as a constituency can be empowered through information and access — thus becoming an effective actor in ensuring accountability and in determining the outcome of policy reform process. In operational contexts of institutional reform, this implies the need for country and reform-specific strategies and policies in order to create or “progressively realign” institutions to encourage policy reform and distributional equity.³⁸

The framework proposed in this study is to a significant degree based on the social analysis approach developed for Poverty and Social Impact Analysis (PSIA)³⁹ and further expanded through the Tools for Institutional, Political and Social Analysis (TIPS)⁴⁰. It was developed inductively from operational experiences of to provide concrete, contextual examples of identifying and managing the political economy of agricultural and water sector reforms at the disaggregated level. This three-pronged, systematic and integrated approach of analysis, process and action is geared to jointly address both the analytical and operational concerns of development interventions: improved distributional equity, ownership, and sustainability of policy reforms and operations. The framework builds on an overall distinction between the reform context, the reform arena and the reform process. The reform context refers the deeper social (including ethnic cleavages), national political and historical institutions which affect the sector under consideration. The reform arena is shaped by sector stakeholders, institutions, and their economic and political interests. The reform process consists of dialogue and decision-making, champions or coalitions of change, and the influence that donor agencies and external actors have in the reform and operation. The following framework was developed to organize the information derived from the case studies, and ultimately, to assist development practitioners to more systematically identify and manage political economy dimensions of reforms and operations. The content of the different elements is further explored in the following sections.

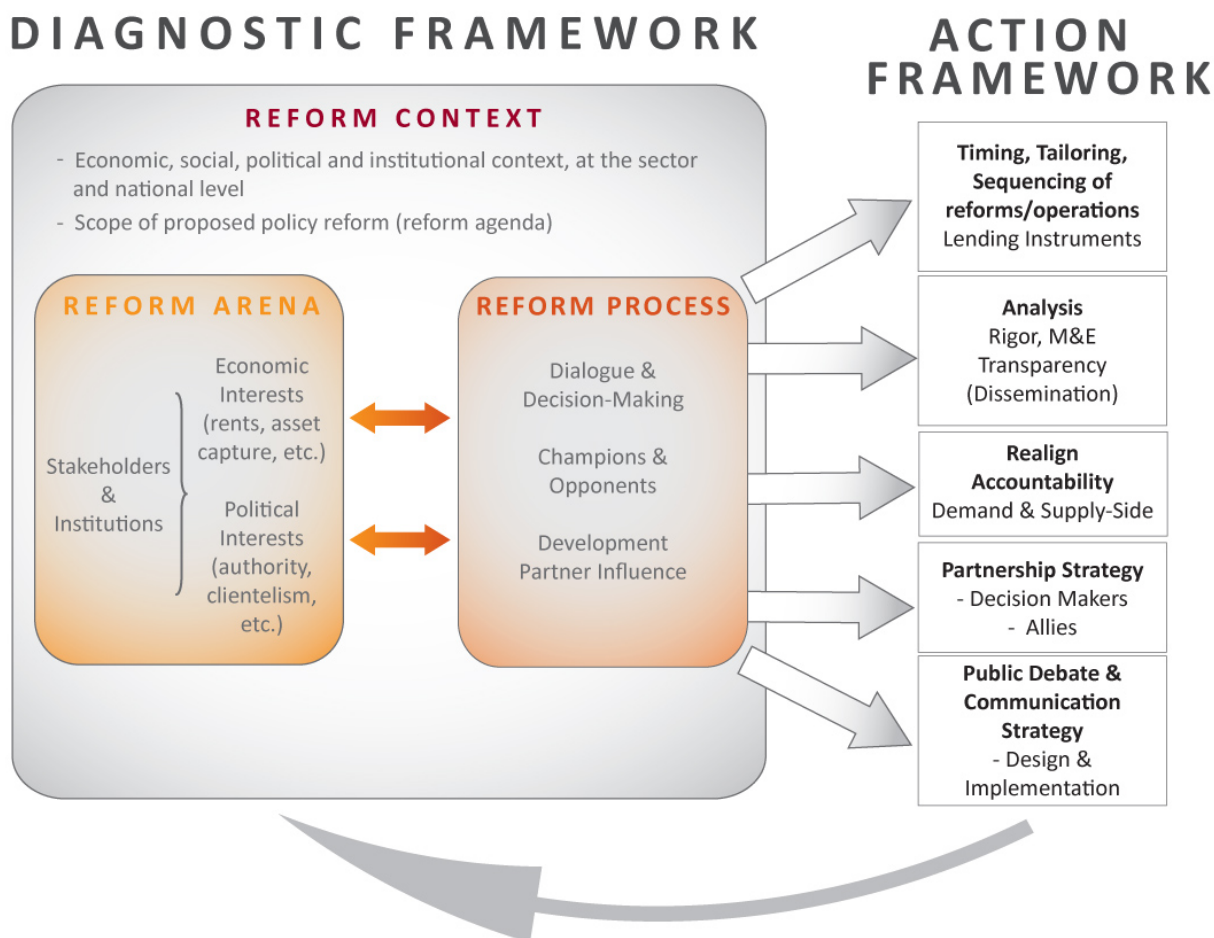
³⁸ See Ahrens, 2002; Rodrik, 2002

³⁹ World Bank, 2003e or visit www.worldbank.org/psia

⁴⁰ Holland, 2007 or visit

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALDEVELOPMENT/EXTTOPPSISOU/0,,menuPK:1424015~pagePK:64168427~piPK:64168435~theSitePK:1424003,00.html>

Figure 1: A Conceptual Framework of the Political Economy of Reform



Source: Authors' compilation

3.1 The reform context – macro context and scope of reform

The reform context includes the country's and sectors' socio-economic, political, cultural and historical characteristics. The context description and analysis should take into account relevant elements of the political economy in terms of social and economic inequality, property rights, power relations, social organization (including kinship systems, ethnic groups and traditional authority), regional disparities, systems of exchange and markets, the state apparatus, and the political parties, institutions and powers. Such a consideration links the sectoral focus with the institutional and decision-making context at national level. A key issue in many instances is the availability of rewards for clients and constituencies of powerful political actors through the functioning of sector institutions.

The reform context also includes more specifically the scope of the reform agenda itself — what are the key policy changes that are being proposed? What are their objectives? Who tabled these reforms? How do they support the political objectives and repertoires of the stakeholders who are sponsoring them?

Development agencies have developed tools for analyzing the country and reform context that are highly applicable here. The tools include the Sida's Power Analysis, DFID's Drivers of Change, or the World Bank's Country Social Analysis (CSA). These approaches are described greater detail in the TIPS Sourcebook.

3.2 The Reform Arena – Institutions, Stakeholders, Economic and Political Interests

The notion of a reform arena⁴¹ as used here comprises the institutions that govern relations and behavior and the stakeholders with their economic and political interests that mediate policy reform.

Institutions are the societal “rules of the game” that shape and constrain human interaction and individual choices. Institutions can be a *formal* set of rules such as a constitution, a political regime, executive-judicial relations or elections. Institutions can also be *informal* rules — the norms, cultural practices or habitual ways of doing things that frame social behavior and interaction and that encompass social hierarchies, patron-client relations, and various forms of rent-seeking. Institutions provide the context that affects the behavior of stakeholders involved in the policy decision-making process, implementation and impact/outcome. It is also crucial to understand *who* can influence or change institutions, both *de jure* and *de facto*.

A common distinction is made between *institutions*, which provide the rules, and *organizations*, social, political or economic, which are bound together to achieve common objectives within those institutional constraints⁴². However, institutions are embedded in society and are in many cases found to be closely linked to organizations. ‘Institutional reform’ therefore most often entails a change in values and rules as well as organizational restructuring. It must also be remembered that this definition of institutions does not highlight the ways in which rules are in practice generated, followed and contested. There is no society where rules are automatically obeyed, rules are always challenged⁴³, therefore it is also important to consider the incentives affecting the actions of key players in the reform arena.

Stakeholders are individuals, communities, groups, or organizations with an interest in the outcome of an intervention, either as a result of being affected by it positively or negatively, or by being able to influence the intervention positively or negatively. Stakeholders have **diverse interests** which sometimes change in the course of a reform process, either due to the reform process itself or due to changes in the general reform environment. Different stakeholders may be governed by competing sets of formal and informal institutions so that concepts of “playing the same game with the same rules” may be incorrect. In reality, players lobby and negotiate policy change to promote their specific interests, using information asymmetries, unequal power relations, and identifying “windows of opportunity” for their timed actions.

Stakeholders have different levels of interest and influence in different stages of the policy process. Those that have a significant role in policy design, for example, may be much less involved in policy implementation. Similarly, influential stakeholders whose support for the policy decision is crucial are not necessarily important for the actual implementation.

Decision-making is a result of negotiations between different stakeholder interests, power relations, incentives and usage of formal and/or informal institutions. It is influenced, for instance, by access to and use of information, power relations, perceptions, the timing of policy discussions and by the level and inclusiveness of public debate.

3.3 The Reform Process – Partnership, Participation, and Leadership

The reform process refers to change through information flows, voice and public debate, prompting the question: Who sets the agenda, and how and when are proposed policy changes communicated, by whom

⁴¹ See Jordan and Richardson, 1987

⁴² North, 1990

⁴³ Balandier, 1972

and to whom? ⁴⁴ The reform process is characterized by stakeholder interactions over time and by the different modes of interactions.

Partnership as a mode of interaction is more than participation and refers to two or more partners agreeing to share certain rights and responsibilities, though not necessarily in an exactly symmetrical manner. Partnership between aid recipients, and development agencies is at the core of the Paris Declaration⁴⁵. The spirit of partnership in a policy reform process within a country implies that stakeholders have real influence as well as responsibilities, in a mutually agreed upon framework. It also implies more disclosure of information and transparency about decision-making between government, donors, private sector and civil society - and in a decentralized context also a sharing of power both vertically (between central and sub-national government levels) and horizontally (across different ministries).

Process includes supply-side and demand-side actions, with the aim of developing coalitions for change. The supply side refers to state institutions acting pro-actively or reactively, while the demand side includes citizens as consumers and producers. Partnerships with and between stakeholders through ongoing policy dialogue must actively be sought starting at policy design and including government (local and national), civil society, private sector and donor agencies. State institutions take a lead in developing and implementing policies. They are responsible for providing public goods and services and allocating resources for these activities. The “voice” of civil society on the demand side depends on many factors, including on an enabling environment (e.g. the national political context as for instance decentralization or federalist structures), a tradition of participation and the capacity of civil society organizations to structure and articulate their demands. Both the demand and supply side are necessary for effective participation and must be balanced.

Policy design and implementation are rarely linear and coherent processes. Policy reform is often complex, multi-directional, fragmented, frequently interrupted and unpredictable. This implies that a successful policy reform does not simply depend on designing good policies, but upon managing their design, implementation as well as responding effectively to stakeholder concerns, and impacts. The new flexible and contextual approach to policy reform may require developing pragmatic, second- or third-best answers that collaborating agencies and stakeholders can agree upon, rather than “perfect solutions”. Policy reform is not only technical but political. It requires technical solutions that are accompanied by processes of consensus-building, communication, participation, conflict resolution, compromise and adaptation⁴⁶.

Participation⁴⁷ is a crucial component of the policy process; it can be essential as the means to broaden democratic deliberation of policy reform within a country. Participation is often named as a key component of the democratic governance of public policy and can serve different instrumental objectives in the policy process, including aims of increasing the legitimacy, ownership, effectiveness, efficiency and sustainability of policy reforms.

Effective dialogue, public debate and risk management promote ownership, and help build the conditions for forming coalitions to support policy change. Communicating proposed policy changes and outlining reasons for the intended reform can provide the starting point for a public debate and initiate the participation of stakeholders in the decision-making process at an early stage. This can contribute to an early identification of risks to reforms and operations, enabling the design of adequate risk management strategies, which may include compensatory measures for groups that stand to lose. It also provides the opportunity to

⁴⁴ The issue of agenda setting has been elaborated by Kingdon (1984) through convergence of streams of problems, policies, and politics, or Schattschneider’s (1960) mobilization of bias, where “some issues are organized into politics while others are organized out” (p. 71)

⁴⁵ “The Paris Declaration on Aid Effectiveness: Ownership, Harmonisation, Alignment, Results and Mutual Accountability”, High Level Forum, Paris, February 28-March 2, 2005

⁴⁶ Brinkerhoff and Crosby, 2002

⁴⁷ The World Bank *Participation Sourcebook* (World Bank, 1996) defines participation as “process through which stakeholders influence and share control over development initiatives and the decisions and resources which affect them”.

address different opinions, concerns and opposition as part of a more inclusive policy debate. This work, however, also acknowledges that not all policy reforms lend themselves to advance public debate. Instead of a ‘one-size-fits-all’ approach to dialogue and public debate, the study stresses the need to tailor engagement to the country- and reform context.

Leadership aspects of reform processes are essential, but are often not explained or covered much in political economy literature⁴⁸:

“Leadership permits the opening of institutional opportunities that can generate further cycles of policy formulation and implementation and institutional renewal. The way in which windows of opportunity and leadership create virtuous cycles of reform is little understood and difficult to explain”⁴⁹.

The relevance of leadership to policy reform can be seen in the way that leaders engage with often-competing stakeholder interests and encourage behavioral and institutional change that can bring more equitable policy outcomes. “Policy champions” or “agents of change” play a crucial role in policy reform. They commit themselves to the reform agenda, mobilize coalitions to support the reform, negotiate effectively with opposition and often provide a vision of a more equitable future that all stakeholders can buy into.

Finding appropriate mechanisms and behaviors for international development agencies to engage in the policy debate is crucial. The influence of development partners on national debates varies across countries. This is in part due to the different lending environments in low-income and middle-income countries, and relative dependence of the recipient government on aid flows. It also depends, however, on whether the partner sees itself as a catalyst in national reform processes, or as an outside player that dominates the reform process with externally imposed blueprint solutions. Conducting analytic work to understand the social and political context can be important in making donor agency staff more sensitive to the incentives and constraints which affect their counterparts in partner governments. In most situations donor agencies support policy change through the medium of a primary partner institution in government. Understanding the range of action of the key counterparts, and the tools they have at their disposal to build coalitions for change, is therefore essential to effective work to promote policy change.

The conceptual framework (as outlined in Figure 1) provides the structure for the analysis of the case studies presented here. As outlined in Chapter 1, the study tests and further develops these concepts through a focus on two sectors and two lending instruments across several regions, thus capturing a broad spectrum of operational issues. In respect of the first sector reform area — agricultural liberalization — the study looks at development policy loans in four detailed case studies and four briefer examples. In respect of the second sector reform area — public-private partnership in water supply and sanitation — the study examines investment projects through four detailed case studies and four briefer examples. The elements of the conceptual framework under the right hand column of Figure 1 (‘Action Framework’) are picked up in our concluding chapter on ‘Operational Implications’.

⁴⁸ Grindle, 1999

⁴⁹ Inter-American Development Bank, 2006