

## 5. OPERATIONAL IMPLICATIONS

*“We often compare inefficiencies we observe in the world with the theoretical functioning of private markets, yet markets are not perfect because they are victim to political interference (...). We need to analyze better who benefits from the public or private provision of services (...) and then break this down by constituency in order to build political coalitions for reform”<sup>95</sup>*

This section explores and flags issues related to the management of political economy of policy reforms. It illustrates the ways in which a political economy analysis can be translated into actions which help to improve the effectiveness, sustainability and poverty focus of reforms and operations. It corresponds to the right-hand column (‘Action Framework’) in Figure 1.. The section has been developed inductively from operational experiences, drawing on discussions with Bank task managers in policy and operational departments, as well as the case studies and other material collected. Data collected through this study point to four operational implications that development practitioners in both partner countries and development organizations may find useful to consider in the design of policy options and operations :

- 1) the importance of understanding and monitoring the political economic context;
- 2) linking more systematic evidence generation with more effective negotiation and communication strategies;
- 3) realigning the “accountability framework” for reforms and operations; and
- 4) reflecting on the way the donor community in general, and the Bank in particular, engage in reform processes.

### 5.1 Understanding and monitoring the political economy context – implications for action

#### Reflective political economy assessment and comprehensive analytics

It is clear that political economy dynamics present a very real barrier to pro poor change and reform in both sectors explored in this paper. It is also clear that the operational task leaders of development organizations, who lead on reform dialogue and design of operations, generally are aware of the importance of power relations and have a keen sense of political economy issues (although a thorough analysis of “winners and losers” in reform processes is by no means always evident). Operational development practitioners however, are hampered by the sensitivity of political economy knowledge in an ostensibly technical relationship with the client government. As one key informant put it: “Task leaders<sup>96</sup> have a tremendous amount of tacit knowledge regarding political economy, which is a world away from university papers. But they can’t write down that knowledge for obvious reasons, so it becomes very difficult.”

Despite these intrinsic difficulties, the importance of assessing stakeholder interests, influence and incentives, and of examining formal and informal institutions emerges strongly in this review. When such an analysis is done well, by development practitioners in partner countries or development organizations, it informs an understanding of the drivers of both support and opposition to specific reforms, and the rationales behind it. When this analysis is introduced adequately into a partnership-based reform debate, it provides development practitioners with the basis on which they can negotiate, argue for evidence-based policy making and challenge the positions of incumbents.

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<sup>95</sup> Witold Henisz, Associate Professor of Management at Wharton School of the University of Pennsylvania, speaking at the launch of the publication “Infrastructure: Lessons from the Last Two Decades of World Bank Engagement.”, World Bank, March 20, 2006, Washington DC

<sup>96</sup> The term ‘Task Leader’, ‘Task Team Leader’ or ‘TTL’ is commonly used in the World Bank to denote the professional responsible for managing a development operation.

## **Staying engaged in dialogue for a flexible partnership with decision-makers, supporters and opponents**

Good political economy analysis generally encourages development practitioners to be flexible in their negotiations with decision makers, supporters and opponents in the public and private sectors and civil society. A pragmatic and context-specific approach and flexibility in the management of operations, reform processes, and dialogue are likely to increase the positive outcomes on reform and operation. Some aspects of development practice (e.g. a tendency to seek ‘best practice’ models from other countries and advocate that they be applied without sensitivity to the local context) can work against the required flexibility.

For instance, the World Bank does country level analytical work in order to inform its dialogue with governments. This dialogue needs to be sensitive to the ever-changing political economy and to the fact that different stakeholders may be governed by competing sets of formal and informal institutions. As actors lobby and negotiate policy change to promote their specific interests, they may “play the same game but with different rules” given information asymmetries and unequal power relations. This supports the case for using detailed stakeholder and institutional analyses to identify interests and degree of support for, or opposition to reform and operation (see Table 5 in Annex 1 on Agricultural sector reform). A continuous and objective engagement in the policy dialogue helps to detect changing dynamics in the policy environment. It also helps to build trust and willingness for collaboration to negotiate reform options that are feasible, acceptable, and locally owned. Development partners are exploring different ways of communicating with government, stakeholders and the public, which is particularly challenging in regard to the political economy of reforms.

Discussions with operational staff during this study have raised the question of whether Bank lending instruments and procedures are sufficiently flexible. World Bank operational managers are frequently faced with having to resolve two often competing demands, i.e. project disbursement on the one hand, and sustainability of reforms and operations on the other. With a shift in aid instruments from projects to Sector-Wide Approaches and DPLs in countries and sectors where this is feasible, there can be more time and breathing space for ongoing dialogue and “course corrections”. However, in the case of classic investment projects, process management is more challenging, as the basic design has to be determined before board approval, while the project itself may have a duration of five to six years.

## **5.2 Managing risks by linking more systematic analysis with more effective policy dialogue and communication**

### **Generating and communicating robust and objective evidence**

Evidence-based policy making can reduce the risk of ideological capture or resistance to policy reform. This is well illustrated by the evidence-based approach of the agricultural market reform in Malawi (Box 3) and the Albania water sector reform process.

Information, negotiation, and dialogue are prerequisites for participation and public debate. Policy changes and the reasons for, and implications of, the reform or operation should be generated with a broad range of stakeholders, and communicated to them and the public. Such information can provide the starting point for public debate and initiate an upstream and two-way dialogue with stakeholders on policy design and implementation. This can identify obstacles, including concerns that can turn into risks to reform at an early stage. This allows for the integration and accommodation of the different opinions and perceptions into the policy reform process.

Lessons can be learned from the civil unrest in Bolivia that derailed the water reform process. Notwithstanding the substantive issue of whether or not there were genuine grievances, the lack of an active communication strategy was a major cause of the problems. The socially and politically volatile Bolivian context fostered misinformation that was used for individual and political gain, with no mechanism in place to counteract it. The Bolivia case demonstrates the need in policy reforms for conducting social assessments that identify and address stakeholder perceptions and concerns already at project design stage, for setting up participatory

mechanisms and for pre-planning media and public information campaigns. In Malawi, the government's decision to repeal the ADMARC Act prior to a wider dissemination of the PSIA findings, and Government's failure to articulate its reform plan for ADMARC, has raised wide concerns across civil society.

### **Involving stakeholders in the policy debate and building coalitions for change**

Apart from a commitment to information-sharing in order to promote transparency, a two-way flow of communication with stakeholders is key during the negotiation process for reforms or operations for practical reasons. When stakeholder concerns are proactively addressed during the policy debate and directly integrated into operational design, the risk of significant opposition can be reduced. The study found that participation, dialogue, and the building of 'coalitions of change' (as well as direct response to concerns and opposition) are essential elements that can make or break a policy reform process or operation.

"Policy champions" or "agents of change" play a crucial role in policy reform, especially in regard to addressing opposition based on rents. They can mobilize and broaden coalitions to support the reform, deal effectively with opposition based on vested interests and often provide a vision of a more helpful future in order to help citizens cope with the transition.

### **Building effective, just-in-time M&E systems**

A political economy perspective on policy reforms demands an operational focus on enhancing transparency and accountability in political decision-making. The World Bank has sharpened its operational focus on governance and social accountability in the wake of its three-pillared WDR 2000/1 strategy. The "Accountability Triangle", presented in the WDR 2004, provides a clear analytical framework for identifying entry points to generating transparency and accountability in practice.<sup>97</sup>

The "short route" to accountability brings citizens and providers together through participatory mechanisms that include water user associations and agricultural producer networks. Here much good work is being done by the donor community with country partners on identifying mechanisms for strengthening social accountability in service delivery. The "short route" can bring "quick wins". However, it can also be captured or compromised relatively easily in the absence of interventions that tackle the "longer route" of accountability through voice in policy making and the compact between policymakers and service providers.

Monitoring and evaluation (M&E) feedback is a powerful way of increasing voice and accountability. Experiences with national and local public policy monitoring, e.g., citizens report cards, provide a growing body of knowledge on operational ways to transform institutional structures that govern the policy process. M&E approaches involve creating new channels of information and spaces to deliberate on that information at the macro, meso and micro level, thus encouraging institutional realignments of policymakers, bureaucrats and citizens.

## **5.3 Realigning the "Accountability Framework" for Reforms**

Interventions that address the "reform arena" by unsettling the institutional basis for political and economic (or rent-based) interests are an important element of reforms. A promising way of overcoming blockages to reform is to support policy design that increases accountability relations between government and citizens.

### **Organizational reform for downward accountability**

Strengthening "downward" accountability relations between the state and citizens involves an "unbundling" of the various functions of policy making and policy implementation. This includes regulation, ownership of assets, operation of services and financing<sup>98</sup>. Creating different lines of accountability, backed by legislation and regulation, has the potential to reduce the political influence of local or central governments. This also

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<sup>97</sup> World Bank, 2000/2001 and World Bank 2004e

<sup>98</sup> For a fuller discussion see Baietti et al, 2006.

helps to strengthen the voice of poor and vulnerable groups in the reform processes – as customers and taxpayers, they can hold service providers accountable for inadequate service provision. The emerging practice of the Country Governance and Anti-Corruption strategies (CGAC) illustrates political economy issues at country level, that allow the more recently started GAC analyses at sector level to filter through.<sup>99</sup>

The challenge in the agricultural and water sectors is to minimize negative political influence by separating it effectively from the management of agricultural or water sector service providers (whether public or private). A recent study on well-run public companies examined water utility management in Mexico. The utility was very well run and improved in performance, before the mayor changed along with all the staff, at which point the performance of the utility began to deteriorate<sup>100</sup>.

Shifts in authority and power have fundamental implications for decision-making in policy reforms and operations. Decentralization is one of the most fundamental of such shifts, and it holds the potential for increased downward accountability. The Albania case illustrates how effective water sector reform is dependent on parallel decentralization processes, while the Ghana example (Box 8) shows how public-private partnership management arrangements in a decentralization context can be manipulated by vested interests.

Decentralization takes different forms in different countries. De-concentration of central government agencies is sometimes confused with the devolution of political power entailed by ‘true’ decentralization. Generically, the short term benefits of decentralization are that it brings choices closer to the preferences of the people, including the poor and previously marginalized groups; it allows for greater transparency in the inter-regional and local allocation of public resources; and it allows for local innovation in responding to the needs of the poor. In the long-term, decentralization promotes tax and policy competition across jurisdictions for mobile capital and people.

However, as with all major restructuring processes, the potential benefits are accompanied by significant risks - one being the risk of disruptions in the provision of public services. Short-term risks include the possibility of local elite capture; greater disparities in inter-regional transfers and fiscal capacity in the absence of fiscal equalization. Furthermore, a lack of clarity and awareness concerning roles and responsibilities may weaken top-down and bottom-up accountability mechanisms. Long-term risks are fragmentation of economies of scale and a failure to address or exacerbate disparities between lagging and advanced localities<sup>101</sup>.

### **Mobilizing and empowering accountability from below through new forms of participation and partnership in reform**

Complementing the state-driven (supply-side) reforms for greater accountability and transparency are bottom-up (demand-side) accountability initiatives from the private sector, civil society, and from ordinary citizens. Bottom-up accountability can be strengthened through participatory decision-making for resource allocation, formalizing service provider complaints systems and giving voice to consumers in regulatory oversight. This implies that the current decision regime in place (e.g. democratic, market-based, group-based collective decision etc.) is analyzed ahead of the dialogue process, in order to know whether the regime as such is changing or a change within the rule system is necessary.

This underlines the need for a stronger process approach in operations. Key informants in the present study stressed the importance of information and sound analysis that challenges incumbents’ positions (see above). However, information dissemination must go hand in hand with actions that enable the institutional environment to empower people to hold public officials accountable. A consultative mode must move to an institutional transformation mode of operations, or as one key informant put it “turning ‘voice’ into results”.

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<sup>99</sup> World Bank, 2007b

<sup>100</sup> Kingdom, 2006

<sup>101</sup> Kaiser, 2006 and World Bank, 2003e

This goes to the heart of the ‘political economy-social mobilization’ nexus: much of the operational work on social participation in infrastructure has focused on identifying “issues” and “consulting” with communities on plans. This implicitly vests policy makers and politicians with responsibility for “solving the problem identified” with little accountability to constituents. How can stakeholders act in concert to address those problems in a manner which better ensures sustained implementation of those solutions?

One way is through bottom up interventions in the reform arena, that involve identifying and strengthening “spaces”<sup>102</sup> for collective association and mobilization. In many countries public debate hardly exists, for example due to lack of communication infrastructure, or lack of channels for expression of public views and opinions. An enabling environment can be encouraged through top-down “invited” spaces that can be created through regulatory and procedural changes as suggested above. Top-down changes can be complemented by a more systematic attempt to engage with grassroots collective association and mobilization for institutional change. Such spaces can be identified and expanded through external support, allowing for newly empowered actors to challenge and change institutions.

Collective action is highly politicizing and space for interaction is often vulnerable to control from external or internal power interests. This makes an operational approach challenging for development organizations. However, sensitive interventions that “cultivate” spaces and collaborative processes are possible. Operational work can gain from analysis of how stakeholders are organized into consumer associations and other interest groups, and how institutional arrangements are structured so that stakeholders can participate in negotiations of the social contract and in ongoing implementation. Social analysis can elicit the type of information and technical capacities that is needed to move towards more institutionalized form of participation in policy reform in general.

## **5.4 Reflecting on the Way the Donor Community Engages in Reforms**

Taking on board the issues of contextualization, pace and scope of the donor interventions in policy reform has implications for the way donors do business, how they construct incentives and measure success and how they evaluate their own performance. There are challenges to doing business differently; for instance, the need for more flexibility to adjust to an incremental and not always fully predictable reform process while also meeting the internal targets for timely and results-based interventions; innovative approaches to lending and non-lending activities including changes of decisions to lend and ‘not lend’ that more directly reflect in-country priorities, timetables, and implementation arrangements; more time for the preparation of an operation to allow task teams to stay engaged in the policy dialogue and listen to a broader range of stakeholder views, for instance through more programmatic approaches. Furthermore, it can be difficult to bureaucratically arrange stakeholder engagement for participation. It can be challenging to talk across compartmentalized governments to achieve cross-sectoral consensus and integration or to allow priorities and timetables for interventions to be determined by the reform deliberations in partner countries. However, as the need of reform ownership and sustainability become more recognized, development practitioners increasingly realize the significance of understanding and addressing the political economy of reform during the preparation of operations.

### **Tailoring and contextualizing reform efforts**

The material reviewed for this study suggests that sound analysis of the reform and country-context, accompanied by on-going policy dialogue, can help development practitioners to better negotiate with partner countries in order to design and implement operations that are acceptable and tailored to local conditions, constraints and opportunities. Such adaptation can ensure availability of data and adequate time and resources that development practitioners can use for the policy dialogue, while still emphasizing rigorous analysis and the value of both ex ante and ex post analysis. Some of the case studies suggest that adjusting the sequence and pacing of the reform or operation could improve progress. For instance, improvements in service quality

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<sup>102</sup> Also often referred to as “deliberative spaces”

and the collection ratio could be made a prior condition for gradual tariff increases in order to maintain consumer satisfaction. This could help address the issue of service operators arguing frequently that they cannot afford service improvements without first increasing the tariff; on the other hand, customers are either unable or unwilling to pay the tariff increases without visible service improvements first; and local governments are reluctant to increase tariffs due to political reasons. The Albania water sector analysis and studies of the power sector reform in several ECA countries<sup>103</sup> stress this point.

### **Timeframes for doing business**

The study identified several issues that are critically important to reforms and operations, such as timing, continuous and open engagement in policy dialogue, patience and confidence-building, negotiation and concrete response to concerns and resistance, and talking to a broader range of stakeholders than has traditionally been the case (such as ministries outside of the technical sector in question, and civil society). These findings are supported by other reviews, such as the OED review of Bank lending<sup>104</sup>. This concludes that although consensus building for reforms within a country can be slow and gradual, it creates a better basis for reform than radicalism imposed from outside.

Experience shows that the timing, sequencing, and selection of reforms are crucial, and these may be better determined by a country's political dynamics than by outside advice. With longer time frames, innovative ways of building awareness among stakeholders can emerge on the benefits that are associated with policy reform. For example, an operation can start by engaging directly with the beneficiaries to gather their perceptions on costs and benefits of the operation. Through this, development practitioners can demonstrate to politicians that there is support for investing in services at a given tariff level. Such incremental approaches can work as part of a long term strategy.

### **From lender with conditions to facilitator with influence**

A more measured, process-oriented approach to lending has implications for project cycle disbursement pressure (linked to performance evaluations), and thus for development practitioners in their dealings with borrower countries. For the World Bank, its gradual shift towards sustained engagement with clients and development partners to foster reform ownership as catalyst, rather than drive a reform as an outside player through conditionality, is a way to increase credibility and influence. As the OED review of Bank lending practices argues, the World Bank should be able to reduce lending and shift to a more long-term consensus-building approach if the reform context requires it.<sup>105</sup>

## **5.5 Concluding Remarks**

It is important to acknowledge some limitations of the material presented here. The experience drawn on in all the case studies is from one institution – The World Bank. We have attempted to draw out general lessons for the practice of international development agencies (aimed predominantly at multi- and bi-lateral public agencies); we believe that the material here makes an important contribution to the evolving understanding in this agenda due to the general dearth of ‘policy ethnographies’ of the kind presented here. But further development of knowledge in this area would clearly be helped by similar consideration of the role of political economy analysis in other agencies. Secondly, the political economy of reform framework, which was developed inductively from operational experiences, will have to be applied to policy reforms and operations across several sectors so that it can be further refined and tailored to different contexts. Thirdly, the perspectives presented here were retrospective, and drawn predominantly from members of World Bank task teams. An enhanced understanding would be provided by a longer-term process of action research which engages at the country level with reform processes from inception onwards, and has access to the full range of relevant

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<sup>103</sup> Lampietti, 2007

<sup>104</sup> World Bank, 2005b

<sup>105</sup> World Bank, 2005b

stakeholders. The study presents a solid basis and framework for a future program of work which can address these issues.

By way of conclusion, this study has identified **four key issues** which raise questions for further analytical and operational work.

The first issue relates to the importance of objective, timely and **demand-driven analysis**. This concern raises two questions for further work:

- (i) What level of analysis is needed in view of required timeliness and what cost-efficient methods can be used to provide on-time input to reform dialogue and operations?
- (ii) How can sometimes sensitive or controversial findings be presented and fed into the reform process and into operational design and implementation (and what is the role of public debate in this process)?

The second issue concerns the significance of a **sustainable process of policy dialogue** among practitioners in both donor agencies and national policy communities. Questions for follow-up work include:

- (i) What are the key elements of an effective policy dialogue with a broad range of stakeholders?
- (ii) What processes are useful to initiate, and sustain active policy dialogue during and after the design and implementation of reforms and operations?

The third issue centers on the potential for political economy analysis to inform strategies for **institutional transformation**, including empowering forms of bottom-up institutional accountability. Here the questions for follow up work are:

- (i) How can political economy analysis feed into strategies to enhance the accountability of public policy and public institutions?
- (ii) How can political economy analysis help in the development of strategies for institutional change, including the mobilization of bottom-up pressure for change and top-down transfer of decision-making?
- (iii) Which current institutional settings, operational mechanisms and incentive systems within development organizations need to change to allow for enhanced partnerships to build coalitions for change?

The fourth issue relates to a broader concern with the role of **political economy analysis in good development practice**, including the promotion of equitable outcomes through policy reform. This concern prompts the following questions for follow-up analytical and operational work:

- (i) How can the proposed framework be refined and further developed? How do other development partners and partner countries approach the issues of political economy of reform at country level, and what are their experiences?
- (ii) How can an enhanced understanding of political economy processes at sectoral and national level best inform policy dialogue related to the design of more equitable and sustainable operations and policy reform?

To take forward this work it will be necessary to move from analysis to action and providing more concrete guidance of how to conduct political economy of reform work. This will involve testing the framework (Figure 1) that has been developed inductively from experiences of World Bank operations and refining it as a practical tool for development interventions. The work will be disseminated to development practitioners (from development organizations and partner countries) through various dissemination events and publica-

tion (hardcover and website), through case-study specific dissemination via selective operational engagement (as appropriate), and through the piloting and up-scaling to other sectors and countries. This should help development practitioners in both, donor agencies and national policy communities to design and implement sector policy reforms and operations which are more robust, pro poor, country-owned and effective.