



Political Economy Analysis

Guidance Note

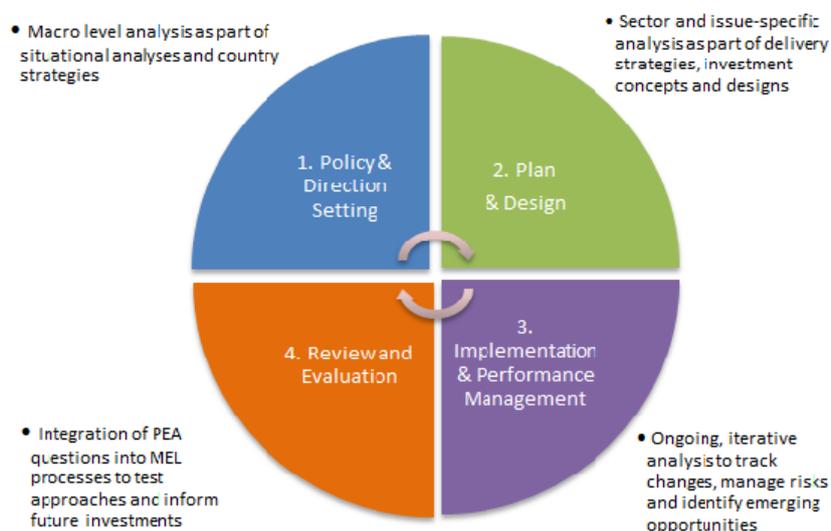
January 2016

Overview

The purpose of this Guidance Note is to assist DFAT staff to plan, commission and undertake political economy analysis. This note can assist staff integrate political economy analysis into the aid management cycle, as an ongoing iterative process.¹ Political economy analysis provides a useful evidence-base to inform the principles set out in *Effective Governance: Strategy for Australia's aid Investments*. Understanding the political contexts in which we work is critical to informing DFAT's policy work and improving development effectiveness. In recognition of this, DFAT's systems and processes are increasingly recommending that programs undertake political economy analysis as part of Aid Investment Plans, Sector Investment Plans and investment concepts and designs. Political economy analysis can be done alongside or as part of other analytical work (e.g. poverty analysis, growth diagnostics, gender analysis) to give a greater understanding of context, including barriers to change, and how power and decision-making is exercised. The inclusion of gender is particularly important to political economy analysis, it enables DFAT to undertake stronger analysis to better understand power and resource distribution.

¹ This guidance draws on approaches developed by DFID, ODI RAPID, World Bank, the Asia Foundation, the Developmental Leadership Program, UNDP and the Asia Research Centre at Murdoch University, as well as DFAT experience.

An informed understanding of the local political economy can improve development effectiveness at all stages of the aid management cycle



This note includes:

1. What is Political Economy Analysis?
2. Why does Political Economy Analysis Matter?
3. Approaches to Political Economy Analysis
4. Planning Political Economy Analysis
5. Undertaking Political Economy Analysis

1. What is Political Economy Analysis?

Political economy analysis is about understanding the political dimensions of any context and actively using this information to inform policy and programming. Politics is the *formal and informal ways through which contestation or cooperation occurs in a society*. Political processes are dynamic and occur at all levels of society.

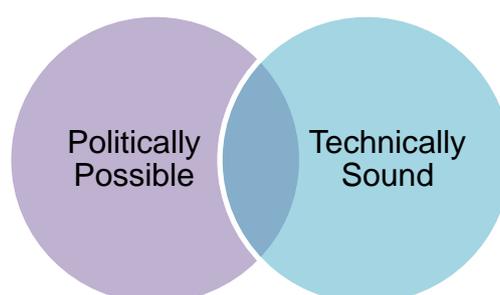
Political economy analysis involves looking at the dynamic interaction between structures, institutions and actors (stakeholders), to understand how decisions are made:

| | |
|---------------------|---|
| Structures | Structures are the more enduring specifics of the context that change slowly, such as global influences, natural resource endowment, demographic shifts, historical legacies, social-cultural factors and technological progress. |
| Institutions | Not to be confused with organisations, institutions are the ‘rules of the game’, the local laws, conventions and traditions that shape human behaviour. Informal institutions are just as important as formal institutions. They are not static and are often the focus of aid interventions. |
| Actors | Actors can be either individuals, organisations or coalitions from the public, private or civil society sectors. Their interests, motivations, networks and influence shift over time. Their behaviour can be thought of as ‘the games within the rules’. |

2. Why does Political Economy Analysis Matter?

For aid activities to achieve sustainable results, they need to be both technically sound *and* politically possible. This is because development is a political process – sustainable, locally-legitimate institutions emerge over time through local political processes. In the past, donors have tended to emphasise technical fixes without due consideration of the political realities. They have also tended to focus on formal institutions and structures rather than human agency and informal institutions.

Development outcomes are achievable when we consider the intersection of politically possible and technically sound



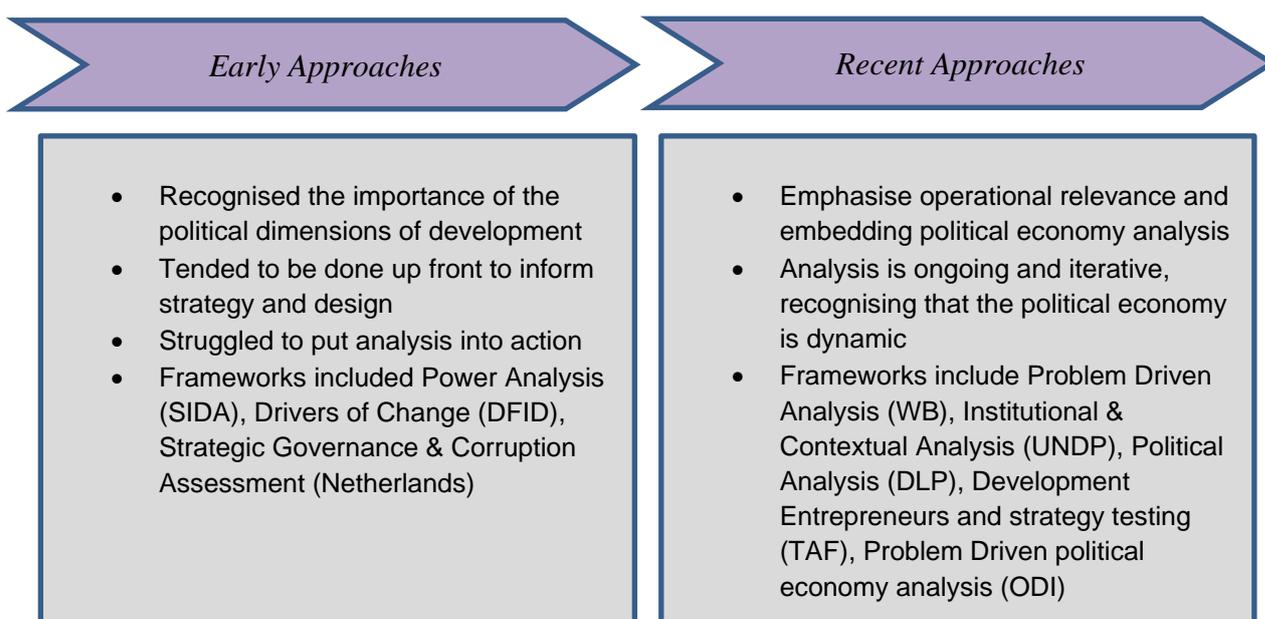
Political economy analysis enables us to better understand the political, economic and social processes promoting or blocking change. Political economy analysis prompts us to ask ‘why is the situation like it is?’, ‘how does change really happen’ or ‘why is change not happening?’ It requires us to consider ‘who wins and who loses out’, and what the losers may do to block reform.

Political economy analysis tools assist us to design and implement programs that have achievable objectives and which are more likely to achieve results. By integrating political economy analysis into the aid management cycle, as an ongoing, iterative process, program

staff and partners can track changing actors, interests and power relations throughout implementation, manage risks, and seize opportunities as they arise.

3. Approaches to Political Economy Analysis

Over the years, development agencies have developed various tools and approaches for undertaking political economy analysis. One common challenge is putting political economy analysis into action and integrating it throughout the aid management cycle. To address this, most recent approaches advocate ‘problem-driven’ analysis which emphasise operational relevance and embedding political economy analysis into aid management processes, or ‘getting the process right’. This means putting effort into identifying specific issues up front that the political economy analysis should address, to ensure political economy analysis findings are used to inform policy and programming decisions.



Recent evidence suggests that only 20 percent of the analysis should be done upfront, with 80 percent of the analysis occurring during implementation. The 80 percent can be achieved by:

- › integrating initial and emerging analysis into monitoring and evaluation
- › undertaking regular formal and informal reviews
- › supporting staff to gain contextual awareness
- › building relationships and sustaining ongoing policy dialogue (see section 7).

4. Planning Political Economy Analysis

Understanding the political dimensions and implications of a development initiative is a continuous process. However, undertaking an up-front, stand-alone political economy analysis can initially help to identify the strategic choices to be made, as well as constraints, risks, opportunities and entry points, and inform Aid Investment Plans.

Drafting Terms of Reference

The following checklist will assist in drafting terms of reference. We recommend that a Terms of Reference (ToR) be drafted even if the analysis will primarily be conducted in-house. The Governance Section can provide examples of ToRs for political economy analysis.

| | |
|---------------------------|--|
| Background | <ul style="list-style-type: none">• Do you want to undertake a specific PEA or integrate PEA thinking into broader analysis work? |
| Objectives | <ul style="list-style-type: none">• What is the specific purpose of the PEA? What level of analysis is appropriate (macro, sector, issue-specific)? |
| Scope | <ul style="list-style-type: none">• How can you find out what you need to know? Where are the information gaps? How participatory will the process be? |
| Duration and Phasing | <ul style="list-style-type: none">• Is the length of the process proportionate? Is timing and internal ownership/commitment right to ensure findings are acted upon? |
| The Team | <ul style="list-style-type: none">• What mix of skills and expertise is required? Will the PEA be undertaken internally, externally or a mix? |
| Reporting and Utilisation | <ul style="list-style-type: none">• Who is primary audience? How and with whom will findings (which can be sensitive) be shared? Has a clear process for integrating the analysis been identified? |

In-house or commissioned Political Economy Analysis?

Political economy analysis requires a mix of sector and contextual knowledge, as well as in-country connections. It is ideal to use a mix of internal and external expertise. DFAT locally engaged staff as well as other government departments (such as the Office of National Assessment) can be useful internal sources of political economy information. In addition, gender dynamics must be included to ensure a strong (and more complete) political economy analysis. Accessing internal expertise, such as DFAT gender focal points is a good starting point.² Some country programs have begun with an internal stakeholder mapping

² If you would like to find out more about the network of Gender Focal Points please email: gender.equality@dfat.gov.au

process to tap into existing knowledge and to identify gaps. They have then commissioned analysis on specific aspects

DFAT also has a number of umbrella research partnerships that can be used to access external expertise for undertaking political economy analysis.

DFAT's Research Partnerships

The Asia Foundation (TAF):

TAF is a highly respected provider of political economy analysis expertise in the Asia region. The DFAT - TAF Strategic Agreement provides TAF with core funding. Country programs can also enter into separate funding agreements with TAF to undertake political economy analysis work.

Contact: Governance Section

The Overseas Development Institute (ODI):

ODI is a highly respected international think-tank which can assist with undertaking political economy analysis, in particular sector-level political economy analysis. DFAT has a Partnership Agreement with ODI. Specific bodies of work can be contracted on a user pays basis using the Scope of Services template.

Contact: Development Policy Section

Developmental Leadership Program (DLP):

DLP is a DFAT-funded research and policy initiative that looks at the central role of leaderships and coalitions in the political processes of development. The DLP publishes regularly and can provide tailored advice on analysing the political dimensions of development. (www.dlprog.org)

Contact: Governance Section

Governance and Social Development Resource Centre (GSDRC):

DFAT has access to the rapid Helpdesk research services provided through the UK-based GSDRC. GSDRC aims to provide standard literature review reports within two weeks. It can also accommodate longer-term pieces of work. (www.gsdr.org)

Contact: Fragility and Conflict Section

5. Undertaking Political Economy Analysis

Most development agencies accept that political economy analysis can be undertaken at three broad levels: macro, sector and issue-specific analysis. At any level, the process should focus on identifying entry points and opportunities for engagement, as well as addressing challenges and barriers. Details of specific tools and approaches are at Annex A. The Governance Section can provide advice on using particular tools or approaches.

Macro or Country Level Analysis

The purpose of macro level analysis is to gain a broad understanding of the political dimensions of development in a particular country or region. For example, it might ask:

- › What is the underlying nature of the governance regime?
- › Who holds power and in whose interests is it used?
- › Are women and men equally able to access positions of political power?
- › What is the nature of the political settlement and the social contract?
- › Is legislation (and the way it's applied) gender neutral, or do particular laws reinforce and sustain subordinate or discriminated gender roles?

These sorts of questions help to identify constraints, risks and opportunities in order to inform high-level strategy and areas of focus for the aid program. At the very least, Aid Investment Plan processes should apply a political economy lens to the broader process of analysis. This prompts programs to think critically, challenge existing assumptions about why things are as they are, and to challenge current ways of working. This level of analysis will also inform sector or specific issue analysis.

Sample questions for a country level political economy analysis include:

| | |
|----------------------------|--|
| Structures | What are the key 'embedded' political structures? |
| | How do they function, and in whose interests? |
| | What are the key constraints and intractable problems? |
| | What are the relevant political dimensions of Australia's involvement? |
| Institutions | How well aligned are formal and informal institutions? |
| | What are the overriding 'rules of the game'? |
| | What are the incentives that shape the behaviour of key players? |
| Actors | Who are the key players driving and opposing reform? |
| | Is there momentum for reform? |
| | Are there coalitions for change? |
| Dynamic Interaction | Why is the situation as it is? |
| | How do decision-making processes actually work? |
| | What are the risks and the opportunities for engagement? |
| | What are the gaps in our knowledge? |
| | What are the critical areas to be tracked? |

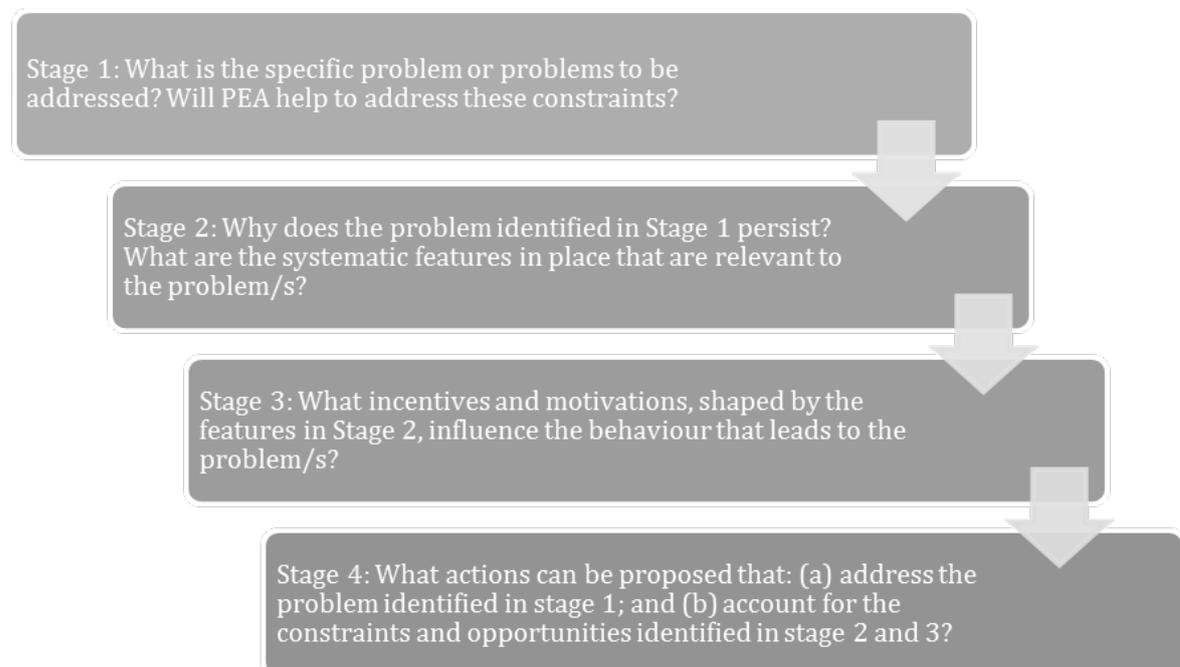
The Best Aid Investment Plans:

- › focus on opportunities and entry points rather than just obstacles and barriers
- › are direct about the role DFAT plays as a donor and Australia plays in the region or country
- › highlight enduring structures and institutions, but equally acknowledge the role of actors and their potential to shape institutions
- › have a strategy in place for the analysis to be the first step in an ongoing iterative process
- › link analysis findings to proposed focus areas
- › set realistic objectives, given the constraints outlined in the analysis.

Sector-Level and Issue-Specific Analysis

Sector-level analysis examines political dimensions at the sector level and is useful for identifying specific barriers and opportunities. Issue-specific analysis is useful for illuminating a specific policy or programmatic issue (often within a sector), in an action-oriented approach.

Sector-level analysis and issue-specific analysis are discussed together, because a similar approach and tools are used. ‘Problem-driven’ approaches are particularly appropriate for these levels of political economy analysis. The World Bank’s problem-driven framework has four steps to help ensure the analysis is relevant and is used:



Sample questions for sector-level and issue-specific analysis include:

- › What are the key areas or issues within the sector that we want to focus on?
- › Who are the key players (state and non-state actors)?
- › Which groups have the capacity to act and make their voices heard? What issues are the groups organising around (e.g. gender equality)?
- › What are the power dynamics among these players?
- › How do gender norms reinforce power relations?
- › What are their networks and interests?
- › Who are the reformists and anti-reformists and what are their motivations?
- › What are the key formal and informal institutions influencing their behaviour?
- › How do decisions-making processes actually work?
- › Are we being realistic about assumptions and objectives?
- › What are possible entry points and the key political risks?

There are many questions that a political economy analysis could answer. It is clearly not feasible to track all of these throughout implementation. Risk analysis can help determine which aspects are the most critical to our success, and therefore need to be tracked.

The program manager does not have to be responsible for tracking all the key elements of the political context. Program areas should work out who is responsible and make sure everyone is clear on their responsibilities. Much of this responsibility will lie with managing contractors or local partners. DFAT staff should have oversight and facilitate processes to ensure this information is actively incorporated into decision-making processes. Sample monitoring questions include:

- › What has changed in the political context that is of relevance to our program?
- › How does this impact on our program? Are we aware of the gendered impacts?
- › Given this, what action should we take to maximise program success?
- › Are there any windows of opportunity emerging?

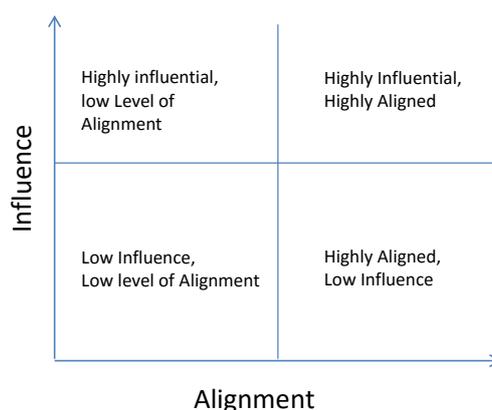
Suggestions for Conducting In-House political economy analysis at the Sectoral Level

- › use a ministry or departmental organisational chart from your sector as a starting point to discuss the key players, their alignment, interest and influence and their formal and informal networks, and then move beyond government to discuss and map non-state actors.
- › workshop a case study of an existing DFAT initiative that is having trouble gaining traction to examine how political economy analysis could inform the approach to make the program more effective.
- › identify possible opportunities and entry points for the sector, taking into account the policy priorities and political economy of Australia as a donor.
- › use political economy analysis to inform the theory of change, M&E framework and to test assumptions.

Stakeholder Analysis

One way to start sector-level and issue-specific analysis is to map the stakeholders. Stakeholders can be placed along a spectrum of ‘reformers’ to ‘anti-reformers’. Individuals who are champions of reform on one issue may be indifferent or ‘anti-reformist’ on another issue. They may also move from ‘reformer’ to ‘anti-reformer’. Remember that partner governments are not homogeneous, but are made up of individuals with their own interests, motivation, networks and influence. As gender is the most fundamental power relationship keep in mind what are the gender dimensions of the distribution of formal and informal power in society in both the public and private spheres.

Murdoch University’s Asia Research Centre provides a typology of reformers (idealists, pragmatists and opportunists), gatekeepers, opponents, and obstructers to facilitate stakeholder mapping. ODI RAPID has produced a useful [tool](#) (below) to plot stakeholders’ levels of alignment and influence, and to facilitate discussion around strategic approaches.



6. Other Considerations

This good practice note aims to assist DFAT staff to integrate political economy analysis thinking throughout the program management cycle, in order to design and implement

programs that are more effective. Operationalising this guidance requires an operating environment that supports staff to:

- › Develop an understanding of the context
- › Invest in relationships and policy dialogue
- › Gain the relevant skills
- › Use networks and advisors to share lessons across DFAT
- › Seize windows of opportunity and respond to emerging political realities
- › Be actively involved in the analysis process and have a role in tracking changes in the political context to feed into decision-making
- › Actively incorporate political economy analysis questions into M&E and quality processes.

Feedback

Governance, Fragility and Water Branch welcomes feedback from staff on the usefulness of this guidance as part of its continuing efforts to improve the quality of its advice. If you have any comments or feedback about this Guideline, or related business process guidance, please contact governance@DFAT.gov.au. The Branch would also welcome examples of case studies of political economy analysis in practice in DFAT and examples of the impact of politically-informed approaches.

Annex A: Matrix of Political Economy Analysis Approaches

| Level | Approach | Strengths, Limitation and Usage |
|--|--|--|
| Country | Power Analysis (Sida) multidisciplinary approach to explore the relationship between democracy, poverty reduction and informal political processes. | These approaches recognise the importance of the political dimensions of development. |
| | Drivers of Change (DFID) sees the political system as the set of linked formal and informal political processes by which decisions are made to understand the factors driving or blocking change. | Tend to be done up front to inform strategy and design. Struggle with putting analysis into action. |
| | Strategic Governance and Corruption Assessment (SGACA, Netherlands) encourages a deeper understanding of local country context, capturing some of the more intangible and informal processes that affect local governance and corruption. | Have been tried and tested (particularly Drivers of Change). |
| | Politics of Development (DFID) built upon lessons learnt from Drivers of Change to explain decision making in terms of various inputs, processes and feedback loops making up the political system. | |
| Sector | Political Economy Analysis for Sectors (ODI/DFID) increasingly popular way to employ a problem-driven framework, e.g. political economy analysis for WASH. | These approaches emphasise operational relevance and embedding political economy analysis. |
| Problem Driven (sector-level and issue-specific) | Problem Driven Analysis (WB) in order to overcome the challenge of putting political economy analysis into action donors have found it useful to focus on specific challenges or problems that can drill down into a problem. | Analysis is ongoing and iterative, recognising that the political dimensions of development are dynamic. |
| | Development Entrepreneurs (TAF) an iterative process that supports local actors to work collectively to find technically sound and politically possible reforms. | Still being tried and tested to form a body of evidence measuring impact of analysis on development results. |
| Multi-level | Political Economy Analysis How To Note (DFID 2009) not one approach, but rather a menu of tools at the global, country, sector and problem driven level. | |
| | Institutional and Context Analysis (UNDP 2012) goes beyond political economy analysis questions and assumptions to produce five broad principles about changing power relations, actors, interests and incentives. | |
| | Problem-Driven Political Economy Analysis (ODI) is a variation of the World Bank's problem-driven framework. | |

| Level | Approach | Strengths, Limitation and Usage |
|----------------|---|--|
| | Political Analysis (DLP, forthcoming) framework that moves the understanding of the politics of development beyond political economy analysis ('the economics of politics') to political analysis. A Users Guide is being developed in 2013. | |
| Issue-Specific | Politics of the Budget (DFID) guidelines on how to review the politics of the budget. | Reinforces the need for a political understanding of the budget. |
| | Typology of Reformers and Opponents (Murdoch University Asia Research Centre, forthcoming) breaks down stakeholders and actors as non-monolithic and whose alliances shift over time. | Useful for internal stakeholder mapping processes. |
| | Making Markets Work for the Poor (DFID) framework to analysis whether the voices of the poor and government capacity and accountability are not obstructed or distorted by vested interests, poor information or weak institutions. | Looking at the private sector and market development. |
| | Network Analysis maps the webs of relationships within a society, including power, prestige and authority to create a power profile. | Large investment for the return, with the network map becoming dated very quickly. Good for diplomatic decision making or influencing a political settlement. |
| | Linking Procurement and Political Economy (DFID, WB) a guide linking political economy analysis and procurement, useful for working in partner systems. | |
| M&E | Action Research (DLP) a monitoring tool used to build more politically informed development programs, especially those that aim to promote and support transformational change. | |
| | Strategy Testing (TAF) a monitoring system developed to track programs that are addressing complex development problems through a highly iterative, adaptive 'searching' approach. | |