PROBLEM-DRIVEN GOVERNANCE AND POLITICAL ECONOMY ANALYSIS

GOOD PRACTICE FRAMEWORK

SEPTEMBER 2009
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Governance and political economy analysis has a crucial part to play in enhancing the effectiveness of development. Across the World Bank, there is a widely shared perception that we need to gain a better understanding of the environments in which Bank operations are taking place and seek to promote progressive change (IEG 2006, 2008). This coincides with an increasing recognition that governance and political economy (GPE) factors play a powerful role not only in a country’s overall development path, but also for shaping policies in various sectors and the way they are being implemented. Moreover, an analytic approach to governance and political economy is essential to making progress in addressing governance to unlock development, as committed to in the 2007 GAC Strategy and subsequent Implementation Plan.

The objective of this good practice framework is to systematize approaches to governance and political economy analysis and to provide readily available orientation for World Bank task team leaders (TTLs) and teams. This framework does not set out a particular product. It takes the general view that in order to improve development effectiveness, GPE diagnostics should become integral to preparing and implementing Bank strategies and operations. The key intention of the framework is to propose standards for such diagnostics and to synthesize lessons learned.

The framework is primarily intended for a World Bank audience. It is important for World Bank management and staff to devote greater attention to the governance and political economy dimensions of development challenges. This can best be facilitated by a discussion that is tailored to the needs of such an audience. However, this is also a public document, and many of the ideas and issues set out here may be of interest to stakeholders in client countries (such as researchers and civil society groups), and to other development agencies and multilateral development banks (MDBs).

This good practice framework is one key pillar of an internal Sharepoint web resource (http://connect.worldbank.org/units/prem/ PD-GPEA/PGPE/default.aspx). The web site makes the range of approaches and applications which this framework synthesizes available in full. It also provides a platform for sharing GPE analytic products with other Bank staff. The framework and the site are intended to facilitate access to a variety of approaches to governance and
political economy analysis, as well as to facilitate exchange and feedback around existing and planned work. It is intended to support an emerging community of practice (CoP) for GPE analysis that spans different units and regions across the Bank.

WHY GOVERNANCE AND POLITICAL ECONOMY ANALYSIS?

Politics and political economy influence whether and how reforms happen—in developing as well as developed countries. For many years, World Bank teams have experimented with various ways of analyzing and understanding the political economy context of reforms and with using such diagnostics for smarter engagement.1 The good practice framework described here is an attempt to summarize relevant analytic tools and approaches and to make key lessons learned readily available. It also seeks to set out how such tools can be used in a way that is problem driven, that is, focused on specific issues and challenges rather than on developing broad overviews, in order to generate useful findings and implications.

GPE analysis will not lead to quick fixes, but it can be practical and useful for enhancing strategies and operations. GPE analysis should not be expected to deliver a new magic bullet. At the same time, recent experience shows that it can be practically oriented and valuable, setting out options and solutions rather than mainly pointing to obstacles. Across the Bank, country and task teams can benefit significantly from a more systematic understanding of the context they are operating in and in which they are seeking to foster change.

The intention of this framework is to present a menu of options rather than to offer or prescribe one particular way of doing things. It seeks to provide guidance that is practical and specific but which can and should be tailored to particular circumstances and specific questions to be addressed.

The emphasis of this paper is on good diagnostics. This is complemented by a brief discussion in Part Two concerning how analysis can be translated into action. This aspect will be explored more fully in an accompanying paper. A further paper is expected to address the important issue of how country teams can monitor the evolution of political trends more systematically on a continuous basis in order to be able to respond to continuously evolving situations.

A PROBLEM-DRIVEN APPROACH TO GOVERNANCE AND POLITICAL ECONOMY ANALYSIS

The emphasis of this framework is on ‘problem-driven’ analysis. It emphasizes GPE analysis that focuses on particular challenges or opportunities, such as analyzing why reforms in the power or health sector or those aimed at improving urban development might not have gained traction and what could be done differently to move forward. ‘Problem-driven’ does not mean focusing exclusively on areas of difficulty. For example, in a range of environments much can be learned from including an analysis of how islands of excellence emerged. In other cases, the key issue may be how to react to a ‘window of opportunity’ that is opening up.

The use of various types of GPE analysis to assess risks and to help shape reforms is becoming increasingly important. While the World Bank’s mandate explicitly precludes it from engaging in politics, it has become widely accepted that the institution needs to understand the political economy context of reforms from a diagnostic perspective in order to be able to assist countries effectively in designing and implementing development strategies and policies.

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1. While the World Bank’s mandate explicitly precludes it from engaging in politics, it has become widely accepted that the institution needs to understand the political economy context of reforms from a diagnostic perspective in order to be able to assist countries effectively in designing and implementing development strategies and policies.
Three layers of problem-driven analysis

_A problem-driven approach to GPE analysis comprises working through three layers:_ (i) identifying the problem, opportunity or vulnerability to be addressed, (ii) mapping out the institutional and governance arrangements and weaknesses, and (iii) drilling down to the political economy drivers, both to identify obstacles to progressive change and to understand where a ‘drive’ for positive change could emerge from. This basic approach can be applied to analysis at country, sector, or project levels.

As outlined in Figure i, the first layer requires defining the challenge to be addressed (and to establish that it appears to have a governance or political economy dimension). Often, this will
emerge from ongoing policy dialogue or existing reports. The second layer aims at understanding institutional and governance arrangements and how these are related to poor outcomes. The third layer aims at drilling down to the underlying political economy drivers.

Layers two and three clearly overlap. However, they are differentiated in order to emphasize that institutional and governance dimensions as well as stakeholders and their interests need to be explicitly considered. Analysis at layer two is essential for identifying what reforms are feasible from an institutional perspective. Drilling down to the political-economy layer is important to understand why the identified problem has not been addressed successfully and what the relative likelihood is of stakeholder support for various change options.

‘Good enough’ governance and feasible approaches to reform

The approach to GPE analysis proposed here is based on a diagnostic rather than a prescriptive approach to governance (Rodrik 2008a and 2008b). The ultimate goal is to achieve development and improved governance, but the focus is on how to move in this direction rather than on the final goal. ‘Good enough governance’ captures the notion of focusing on priorities and improvements that are feasible (and affordable) rather than trying to reform governance wholesale—whether at the macro, core, or sector level (Grindle 2007, Khan 2006).

In many cases, the implications resulting from a GPE analysis will entail considering feasible options for reforms. While ‘first best solutions’ are technically superior in a textbook sense, their advantage can be lost or even reversed under real-world conditions if they are only partially implemented, are stalled or reversed because they are politically unpalatable, or trigger unintended consequences during implementation. At the same time, ‘feasible’ reform options are clearly distinct from ‘default options’, that is, the reform path or non-reform path that would result from no intervention or effort at change.

TRANSLATING ANALYSIS INTO ACTION: USING PROBLEM-DRIVEN GPE ANALYSIS TO ENHANCE BANK STRATEGIES AND OPERATIONS

Problem-driven GPE analysis can be translated into action in several ways. This problem-driven approach to analysis (hereafter referred to as PGPE analysis) can provide political intelligence for agreement on what is feasible within teams and with management. Moreover, it can provide advice on shaping strategies and operations in ways that range from adjusting them to the existing space for change to developing pro-active strategies for expanding the space for change. Country situations matter for calibrating what action to take.

A basic way of using GPE analysis is to have it inform country strategies and operations. GPE analysis helps to create a better understanding of the environment in which operations take place and in which strategic results are being pursued, and helps spell out crucial governance and political (economy) risks. If context permits, GPE analysis can contribute to enhancing the policy dialogue and to developing innovative approaches to operations.

PGPE analysis can support innovative approaches to operations. For example, teams may recognize that it is important as well as feasible to promote a better informed public debate on reform issues and policy options. Or it may become apparent that monitoring efforts by local stakeholders can be encouraged and supported in order to limit corruption and achieve
results more effectively. To pursue such innovative approaches, it is vital that technical and GPE-focused diagnostic work be well integrated and that management attention be supportive.

**PGPE analysis can also serve as a basis for developing support for proactive campaigns for change,** for example, for getting serious about improving health services or improving infrastructure construction and maintenance. The main avenues for building traction for change are coalition building, information and communication campaigns, and generally intensified work with stakeholders on both the supply and the demand side. PGPE analysis, as such, can help decide whether it is possible to pursue a proactive strategy of building momentum for reforms. Proactive strategies need to be developed with respect for the preferences and choices of local stakeholders and with the Bank taking the role of an ‘honest broker’. Importantly, such approaches require resources, dedicated staff, and management attention.

**POTENTIAL LEVELS OF ANALYSIS: COUNTRY, SECTOR, PROJECT**

**PGPE analysis can broadly be applied at three levels: the macro or country level, the sector and thematic level, and the project and policy-specific level.** PGPE analysis can focus at one level only or cover several levels, usually through a set of papers. Teams engaged in strategy planning, for example preparing a country assistance strategy (CAS) or a major development policy loan (DPL) or re-engaging with a country, may seek to cover the country level as well as one or several key sectors. Task teams working on one particular operation will be most interested in sector- and/or project-focused GPE analysis—which ideally can draw on existing country-level analysis.

Country-level analysis seeks to capture the overall governance situation and the main political economy drivers. Analysis at this level serves to capture important factors such as the geopolitical context, important social divisions (including ethnic or religious ones where relevant) and how they have evolved over time, and the evolution of the political management of economic rents. Sector and thematic PGPE analysis seeks to analyze institutional and governance arrangements and political drivers in a particular sector or subsector (covering an entire sector ‘value chain’ [see Annex 2] or selected issues within a sector or theme). Problem-driven GPE analysis for specific projects and/or policy decisions addresses specific questions regarding project design and management, or may be focused around the political economy and institutional aspects of an intended policy change and its likely impacts (including GPE analysis as part of PSIAs).

**EVIDENCING PROBLEM-DRIVEN GPE ANALYSIS**

**Credible GPE analysis needs to be well evidenced.** It needs to pull together a compelling ‘analytic narrative’ consistent with experience and systematically gathered data and information—while avoiding the pitfall of essentially providing technical analysis combined with some broad statements about governance and political economy. In particular, for sector and project-focused diagnostics, PGPE work should be closely integrated with technically focused analysis and teams, so that the two can be complementary and so that important synergies can be achieved for operations.

**The three-layer PGPE model provides a broad guide for the evidencing process.** The

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5. For example, most CGAC pilots combined a background paper on country-level issues with specific papers on various sectors or themes.
first layer, that is, the problem to be analyzed, is usually what motivates the analysis. The analytic description of this layer would be drawn by teams, as a first step, from existing insights or existing materials. At the heart of the analysis are layers two and three: institutional structures and governance arrangements, and stakeholders, their interests and incentives, and the way these interact with formal and informal institutions.

For these layers, the analysis can draw on a range of sources. Generically speaking, the sources are as follows:

- Pre-existing diagnostics (such as sector ESW, PERs, CPARs, and PETS),
- Laws and regulations,
- Organigrams and mapping of de jure and actual process flows as important sources to capture institutional structures,
- Sector-specific data (e.g. pricing information, bill collection),
- Public opinion surveys (existing or commissioned), and
- Other written sources, such as media coverage of policy debates and minutes of parliamentary debates.

Interviews with individuals and with focus groups, where appropriate, are also a key source of information. Interviewees may include knowledgeable local stakeholders—researchers, journalists, civil society representatives, and policy thinkers within government and political parties—as well as in-depth discussions with the Bank’s country or sector teams to capture their often considerable (tacit) knowledge about political economy issues.

A core principle for evidencing GPE analysis is triangulation. It is helpful if more anecdotal or ‘soft’ information can be triangulated with ‘harder’ sources, such as actual budget allocations, pricing information, asset declarations of public officials, or the tracing of publicly accessible sources that reflect positions taken by individuals on the issue at hand (such as electricity tariffs, teacher training and wages, and governance arrangements for the financial sector).

**GETTING THE PROCESS RIGHT: ISSUES TO CONSIDER**

Getting the process right is essential for PGPE analysis to be useful and effective. Effective PGPE analysis benefits from a clear vision of the intention of the work—that is, whether it is meant only to inform Bank teams internally or to inform wider debates, and from a clear vision of the focus and the type of output that is being sought. Furthermore, it is vital to consider the follow-up process concerning how the analysis will feed into relevant programming, strategies, and operations. This paper discusses five process issues:

(i) Planning and timing of PGPE work
(ii) Defining and finding the necessary skills
(iii) Implementing the diagnostics
(iv) Sharing and disseminating outputs
(v) Bridging analysis and follow-up/action.

All five of these issues are important for the production of good PGPE diagnostics. Moreover, making the link between the diagnostic phase and the follow-up phase—including feeding into strategies and operations—deserves great attention.

**KEY CONCEPTS**

Annex 1 discusses selected key concepts and approaches that are considered useful for framing applied PGPE diagnostics. Several of these con-
cepts are widely used, by DfID’s Drivers of Change approaches and for the EU’s sector governance assessments.

Three clusters of drivers: structures, institutions, stakeholder (actors)

Three key types of factors or variables are commonly considered in PGPE analysis: structural, institutional, and actors. Structural factors are beyond the direct control of (local) stakeholders, and many such factors change only slowly over time, although some, such as commodity prices, can be highly volatile. Institutional variables are those related to ‘the rules of the game’ (laws and regulations, as well as informal rules such as social obligations). Actors or stakeholders comprise individuals as well as organized groups or groups with shared interests, such as political parties, the military (and in some cases, powerful secret services), business associations, non-governmental organizations (NGOs), traditional associations, and traders in a particular region. A crucial task of PGPE analysis is to capture how structural, institutional, and stakeholder variables interact and how they impact on the specific development challenges at hand.

Capturing historical legacies

Historical legacies often have profound effects on shaping current dynamics. Capturing such longer processes, and how societies continue to deal with them, provides depth and perspective to the issue of ‘how things have become the way they are today’. While some countries’ legacies are well analyzed and understood, many World Bank teams work in countries that have received limited attention from academic scholars, or where existing attention has never really explored the link between legacies and present constellations. In particular, past conflicts and tensions may be important to understand as they can shape attitudes long beyond their original occurrence.

Mapping formal and informal institutions

Mapping institutions is valuable in two ways: First, it creates a clearer picture about the setting in which stakeholders operate, and how this shapes their interests and incentives, and helps in developing a more detailed understanding of the client agencies with which Bank programs interact. Second, institutional mapping is valuable to identify potential levers of change. Institutional mapping comprises an analysis of formal as well as informal rules, and the ways in which they are related. In many client countries this relationship is complex, formal rules being present but being observed only selectively while informal rules are influential.

Stakeholder analysis

Stakeholders come in many guises. They can be individuals or they can be specific groups, such as the mid-level officials of a ministry, business or farmers’ associations, or political parties. Three main ways of categorizing stakeholders have become widely used: ‘demand-side’ versus ‘supply-side’ actors/stakeholders; reform champions versus reform opponents; and ‘winners’, ‘neutrals/undecideds’ and ‘losers’. Such categorizations can be useful as long as they do not lose sight of ambiguity and dynamics.

‘Reform champions’ are particularly important for promoting change. However, individual champions often have multiple agendas and issues that they need to take into account, such as maintaining their own position and/or power bases, possibly addressing a range of challenges.
that may require horse-trading and compromising with others, having important personal interests or obligations, and so on. Also, some reform champions may be strong individual supporters of reform but be poor at coalition building, which can limit their effectiveness.

**Resources, rent distribution, political stability, and legitimacy**

Understanding the political economy of rents, how it is linked to the distribution of power in society, and how this interaction in turn affects growth, poverty reduction, and reform processes is a critical part of problem-driven analysis. The allocation of rents and how that evolves over time are crucial for understanding underlying political economy drivers, especially at the country level, but often also at the sector and policy level. One challenge is that there are several different diagnostic as well as normative perspectives on rents. While a more traditional perspective holds that rents and rent-seeking should be minimized, Khan and Jomo (2000), Haber et al. (2003), and others caution (a) that some regulatory rents can be important for economic development, and (b) that the distribution of rents is frequently an important pillar of political stability and that attempts to curtail or redistribute rents can result in political instability. Overall, the nature and allocation of rents can be harmful, stifling the economy and stoking discontent, or it can be relatively benign, promoting development and based on an implicit social contract. However, it can be challenging to judge on an ongoing basis which equilibrium a country or a sector is in, given that the boundaries can be fuzzy.

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6. The standard definition of economic rents refers to the difference between what a factor of production is paid and how much it would need to be paid to remain in its current use. There are different types of rents, most importantly those linked to control over natural resources, those derived from government regulation, and those related to illicit activities such as narcotics smuggling.
### Abbreviations

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<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>AAA</td>
<td>Analytic and Advisory Activities</td>
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<tr>
<td>AC</td>
<td>Anti-Corruption</td>
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<td>CPAR</td>
<td>Country Procurement Assessment Report</td>
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<td>CAS</td>
<td>Country Assistance Strategy</td>
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<td>CD</td>
<td>Country Director</td>
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<td>CDD</td>
<td>Community Driven Development</td>
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<td>CEM</td>
<td>Country Economic Memorandum</td>
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<td>CM</td>
<td>Country Manager</td>
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<td>CMU</td>
<td>Country Management Unit</td>
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<td>CPC</td>
<td>Country Program Coordinator</td>
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<td>CPS</td>
<td>Country Partnership Strategy</td>
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<td>CSC</td>
<td>Country Sector Coordinator</td>
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<td>DPL</td>
<td>Development Policy Loan</td>
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<td>ESW</td>
<td>Economic and Sector Work</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<td>GAC</td>
<td>Governance and Anti-Corruption</td>
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<td>GPE</td>
<td>Governance and Political Economy</td>
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<td>IEG</td>
<td>Independent Evaluation Group</td>
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<td>IGR</td>
<td>Institutional and Governance Review</td>
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<td>ISN</td>
<td>Interim Strategy Note</td>
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<td>MDB</td>
<td>Multilateral Development Bank</td>
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<td>PA</td>
<td>Poverty Assessment</td>
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<td>PER</td>
<td>Public Expenditure Review</td>
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<td>PETS</td>
<td>Public Expenditure Tracking Survey</td>
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<td>PGPE</td>
<td>Problem-Driven Governance and Political Economy</td>
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<td>PSIA</td>
<td>Poverty and Social Impact Analysis</td>
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<td>SOE</td>
<td>State Owned Enterprise</td>
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<td>STC</td>
<td>Short Term Consultant</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>TTL</td>
<td>Task Team Leader</td>
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Introduction: Why Governance and Political Economy Analysis?

Politics and the political economy matter for whether and how reforms happen—in developing as well as in developed countries. The World Bank as an institution and its individual country and task teams have been grappling with this issue for many years. A number of teams have experimented with various ways of analyzing and understanding the political economy context of reforms using such diagnostics for smarter engagement. The good practice framework described here is an attempt to summarize relevant analytic tools and approaches, to indicate how they can be used (more) systematically, and to make key lessons readily available. It also seeks to set out how such tools can be used in a way that is problem driven, that is, focused on specific issues and challenges rather than on developing broad overviews, in order to generate operationally relevant findings and implications.

Integrating governance and political economy analysis more systematically into Bank operational work is important to enhance development effectiveness, to better address risks, and to respond to client demands for approaches that are tailored to specific situations. A number of recent evaluations have underlined the need for understanding the political economy context of reforms more systematically and for taking this into account when designing and implementing reforms (for example, IEG 2006, 2008). One client survey in a major country noted that ‘clients considered the Bank’s greatest weakness to be its lack of consideration for political realities on the ground and, broadly speaking, conducting business in a bureaucratic way that is not attuned to country conditions’ (World Bank 2008c: 15). GPE analysis can help to anticipate and manage risks—including risks of reform failure, of Bank-supported reforms triggering unintended negative consequences, as well as potential reputational risks. It can also assist in transmitting important knowledge about institutions and stakeholders more quickly and effectively to staff newly joining a country or other operational team.

GPE analysis will not lead to quick fixes, but it can be practical and useful for enhancing strategies and operations. Understanding what motivates stakeholders, the sources and

1. While the World Bank’s mandate explicitly precludes it from engaging in politics, it has become widely accepted that the institution needs to understand the political economy context of reforms from a diagnostic perspective, in order to be able to assist countries effectively in designing and implementing development strategies and policies.
distribution of rents, or the interaction of formal and informal institutions cannot always be easily translated into building pro-reform coalitions or finding quick fixes to re-aligning incentive structures. Thus, GPE analysis should not be expected to deliver a new magic bullet. At the same time, recent experience shows that GPE analysis can be practically oriented and valuable and can set out options and solutions rather than mainly pointing to obstacles. Therefore, if used wisely, high quality GPE analysis can certainly add to the way the Bank does business and ultimately make a crucial contribution to increasing development effectiveness.

The objective of this framework is to systematize approaches to GPE analysis and to provide orientation for teams that are considering undertaking it. The framework especially draws on the experience with a number of pilot studies undertaken in FY08 and FY09, as well as on earlier studies. These have included country-level analysis as well as analysis focused on a variety of sectors—electricity, transport, telecommunications, water, and public sector reforms—and on thematic challenges, especially the management of natural resource wealth. More broadly, providing a synthesis of these experiences and guidance is intended to support GAC implementation; as well as ultimately to contribute to the wider goal of strengthening development effectiveness.

The intention of this framework is to present a menu of options, rather than to offer or prescribe one particular way of doing things. Such an approach is hoped to be the best way to provide guidance that is practical and specific, but which can and should be tailored to particular country circumstances and to specific questions to be addressed. The framework does not set out a particular product. GPE analysis can take a variety of forms, from major free-standing analytic work, such as has been done for some of the CGAC pilots, to background notes. It has included notes feeding into economic and sector work such as Public Expenditure Reviews (PERs), Poverty Assessments (PAs), or country economic memorandums (CEMs), and just-in-time notes written directly for operational teams during project preparation or implementation.

The framework is grounded in the belief that across the Bank, teams can benefit significantly from applying GPE analysis more frequently and routinely. Furthermore, the framework is primarily based on a diagnostic rather than a prescriptive (or normative) approach to governance (see also Rodrik 2008a). While the ultimate goal is to improve governance and development outcomes, accomplishing that requires carefully understanding the existing governance arrangements and their political economy drivers. Such understanding then allows the design of more feasible, as well as smarter, innovative pathways to reform, adapted to the specific environment.

The emphasis of this note is on good diagnostics. This is complemented by a brief discussion of how analysis can be translated into action, presented in Part Two. This aspect will be explored more fully in an accompanying paper. A further paper is expected to address the important issue of how country teams can continuously and more systematically monitor the evolution of political trends on the ground.

This framework has been developed to facilitate greater attention to and use of GPE analysis among Bank management, teams, and staff. The framework is therefore tailored to the context of Bank operations and strategy development (such as country assistance strategies) designed to show how GPE analysis can be used to inform and shape them to support more effective development. The focus on Bank strategies and operations is not meant to imply that
these are the most crucial processes at the country or sector level. Rather, such a focus is essential because the purpose of this framework is to encourage and facilitate thinking about contextual factors among Bank Group teams. At the same time, a number of the ideas and discussions in this document may also be of interest to others, such as policy researchers and CSOs in client countries, other development agencies, and MDBs.

Although only some Bank staff will directly carry out GPE analysis, many teams and managers, across all sectors and levels, can benefit from understanding the potential use of such work, when and how it can be applied, and lessons learned. Managers, in particular, may want to make sure that teams pay attention to GPE aspects when developing strategies and operations. For TTLs and staff, a general understanding is important in order to assess when an exploration of GPE factors would be necessary or beneficial and when staff or consultants with relevant skills need to be included on teams and to be able to judge and act on the implications from such diagnostics.

The framework is divided here into five parts: Part One discusses the overall rationale of this framework and sets out the key foundations. It proposes that a ‘problem-driven’ approach to GPE analysis (that is, PGPE) is most likely to yield operationally useful insights, and ultimately to help enhance development effectiveness. Part Two discusses how PGPE analysis can be used to inform and shape Bank strategies and operations, and offers options for translating the analysis into action more broadly. These range from a reactive approach of adjusting strategies or operations to the existing space for reforms to a proactive approach that seeks to expand this space.

Part Three sets out the various levels of analysis that may be undertaken, from an overall country focus, to a sector or thematic focus, to a GPE analysis that is undertaken to inform specific projects or policy decisions. PGPE analysis is valuable at each of these levels. Ideally, teams should ensure that some analysis of country-level drivers and dynamics is available before drilling down into more specific areas of concern. In turn, such drilling down is essential to maximize operational usefulness. Part Four addresses the issue of evidencing a GPE analysis, a key challenge in producing high-quality work. Part Five addresses process issues that arise when undertaking GPE-type analysis. GPE analysis is still a relatively new diagnostic approach at the World Bank, which raises challenges in defining the work to be done, finding the right skill set, and managing dissemination. GPE analysis will often raise sensitive issues, so some up-front guidance, drawing on the experience of pilot teams, may be useful.

Annex 1 covers key political economy concepts and approaches. It provides a brief summary of the concepts underlying the questions that PGPE analysis can address. Annex 2 provides a more detailed discussion of analysis at country, sector/thematic, and project levels. It provides an overview of how the general principles, approaches, and options can be applied across the levels of analysis, and points to some of the specifics concerning various levels (such as the varying challenges in evidencing the analysis). Annex 3 reflects the specific questions for country-level analysis that were originally developed in FY07-8 for the CGAC pilot studies.
The emphasis of this framework is on problem-driven analysis to address development constraints. The framework emphasizes GPE analysis that focuses on particular problems, challenges, or opportunities—such as addressing a failure of existing policies to yield tangible results in poverty reduction, managing a resource boom-and-bust, or, at the sector level, analyzing why power or health sector reforms have repeatedly stalled or have failed and what could be done differently to move forward. Importantly, ‘problem-driven’ does not mean focusing exclusively on areas of difficulty. For example, in a range of environments much can be learned from an analysis of how islands of excellence have emerged. In other cases, the key issue to analyze may be how to react to a window of opportunity that appears to be opening up. ‘Problem-driven’ therefore means focusing on specific questions and challenges, in contrast to other analysis that provides broad overviews, either generally or against certain benchmarks.  

The use of various types of GPE analysis to assess risks and to help shape reforms is becoming increasingly widespread across the private and public sectors. The private sector is using progressively more sophisticated political risk assessments. The OECD is adopting a program on ‘Making Reform Happen’, intended to support member countries in better analyzing political economy factors in reforms and to assist them in building successful advocacy and coalitions for reform. 

More and more international and aid agencies regard having a good understanding of the context of their operations as an essential part of their business. The most well-known approach is DfID’s Drivers of Change, followed by the publication in 2009 of a ‘How to Note’ on political economy analysis. The EU, the Nether-
lands, SIDA, and CIDA are also experimenting with various assessment frameworks. These frameworks used by other donors to date have largely been focused on the country level only (rather than focusing also on specific sectors or issues) and have generally not been problem-driven but rather provided general overviews. There is currently a growing interest among several of these agencies to develop more sector-focused approaches to governance and political economy analysis, since this is seen as the way forward.

**Around the World Bank, GPE-type diagnostics have been carried out by various teams for a number of years. Two of the key aims of this framework are to make the ideas and approaches explored by those teams more readily available and to promote the emergence of more systematic good practices.** Existing examples of governance and/or political economy analyses include: (i) institutional and governance reviews (IGRs) (ii) governance diagnostic surveys, focused on understanding corruption overall and on the specific interactions between government and citizens and/or the private sector, (iii) work focused on the distributional dimensions of policy reforms and on political economy factors related to these as part of poverty and social impact analyses (PSIAs), and (iv) a wide variety of GPE analysis done as background notes for country assistance strategies (CAS) and/or as part of CGAC processes, feeding into major economic and sector work (ESW) (such as country economic memoranda or PAs), and notes on GPE issues in resource rich environments and regarding food security.

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**Box 1 Using governance indicators and governance surveys as inputs to GPE analysis**

A related but distinct area of work is that aimed at producing governance indicators, ‘governance at a glance’ summaries and comparative charts of indicators, and governance diagnostic surveys. Governance indicators can be very useful to provide a broad assessment of where governance stands in a country, especially in comparison to regional or income-level peer groups. However, they do not provide the detail and depth of analysis needed to define operational implications. Efforts to develop more actionable governance indicators (AGIs) for various areas are under way. Governance indicators can be very useful as an input to GPE-type analysis. Importantly, there are still methodological problems about many governance indicators—so some caution in their interpretation is required. Furthermore, most such indicators do not provide information on underlying political economy drivers.

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*Source*: Authors.

a. See: http://go.worldbank.org/16E7O0VXW0 (World Bank intranet only).

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7. See http://go.worldbank.org/KK9UIJCJUQ0 (World Bank intranet only). Another website brings together all the questions that have been used in different surveys related to a range of sectors and governance issues (e.g. corruption, nepotism, responsiveness: http://go.worldbank.org/KS54ICJMM0 (World Bank intranet only).

8. See: http://go.worldbank.org/39I9SFVEJ0. The Social Development (SDV) anchor within the Sustainable Development Network (SDN) has recently provided a framework that summarizes the experience with political economy analysis as part of Poverty and Social Impact Analysis (see World Bank 2008b and 2007c).
as well as GPE notes done to inform specific projects. This framework draws in particular on the experiences generated by these various GPE background notes. Such notes have often not been shared across teams, which has hampered the building up of good practices.

This framework builds on these existing approaches and pilots. Drawing on the lessons learned, it emphasizes a focus on specific problems or vulnerabilities, as well as the need to understand political economy drivers by examining them in a systematic way. These elements contribute to making GPE analyses operationally useable, so that they can contribute to development effectiveness. The framework also proposes some clearer standards and expectations, while keeping in mind that the standards have to be realistic regarding what can be done under real-world conditions and with finite resources.

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### I.1. THREE STEPS OF PROBLEM-DRIVEN GPE ANALYSIS

A helpful way to think about a problem-driven approach to governance and political economy analysis is to distinguish three layers: (i) identifying the problem, issue, or vulnerability to be addressed, (ii) mapping out the institutional and governance arrangements and weaknesses, and (iii) drilling down to the political economy drivers, both in identifying obstacles to progressive change, and in understanding where potentially a ‘drive’ for positive change could be emerging from (see Figure 1). This basic approach can be applied to analysis at the country, sector, or project levels—with appropriate adaptation and tailoring as discussed in Part Three (and further elaborated in Annex II).

As reflected in Figure 1, as a first step it is important to define the challenge or problem

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9. Most of these types of analysis have been carried out on a pilot basis, with a few cases studied for each type.
and establish that it appears to have a governance or political economy dimension. The initial identification of challenges or problems may emerge from core Bank work, such as economic and sector work and country assistance strategy completion and progress reports, or from the ongoing policy dialogue with the government or other stakeholders. In a forward-looking way, the team may want to assess how challenging the reforms they are planning to support are likely to be, given the institutional and stakeholder environments. They may also want to anticipate governance and political economy risks in operations such as major policy or investment lending.

In many cases, this is not about identifying governance as the main overall bottleneck to development. Rather, it means considering whether other development challenges—such as improving infrastructure or getting traction on pension systems reform or managing urban development—have governance and political economy dimensions to them that need to be addressed. Typical challenges are reforms that fail or are only partially implemented, as well as reforms that are undertaken but have significant negative and unexpected results. More macro-level problems may include a consistent failure to achieve significant poverty reduction, possibly despite substantial growth. Such challenges have been experienced across client countries and areas of Bank operations. They have occurred in agriculture, health, and public administration reforms, as well as in fundamental policy commitments inscribed in national development strategies.

The second and third layer of PGPE analysis aim at understanding the institutional and governance arrangements and how these are related to poor outcomes, and then at drilling down to the underlying political economy factors and drivers. The aim is to explain why policies and/or institutional and governance arrangements are not sufficiently supportive of the development issue of concern. The explanation will involve an analysis of stakeholders and their interests and incentives, how these interact with the institutional environment (both formal and informal), and how these have been shaped by country or sector dynamics over time. Figure 4 in Annex 1 maps out the interactions between stakeholders, institutions, and structural factors. Part Four provides some basic principles regarding how such analyses can be evidenced to be credible.

Layers two and three, as presented here, clearly overlap. That is, an analysis of institutions is widely considered part and parcel of any political economy analysis. The two layers are nonetheless differentiated for two reasons. On the one hand, many types of existing governance analysis include layer two, but exclude layer three; they identify governance weaknesses, but do not analyze why they exist. On the other hand, some political economy analysis is predominantly focused on an analysis of stakeholders. However, understanding the institutional status quo in sufficient detail is crucial not only for GPE analysis as such, but also in order to be able to map a feasible reform path. Thorough institutional analysis strengthens the operational usefulness of GPE analysis by identifying what reforms are feasible from a political economy as well as an explicitly institutional perspective (the degree of detail in which analysis is carried out of course varies, depending on a team’s needs and the time available).

10. This is essential for establishing that governance creates a problem/hinders development, and the nature of the problem. This creates a clear focus and makes the analysis problem-driven, rather than jumping directly to a discussion of governance weaknesses and problems, of which there are many in most contexts.
The important goal of drilling down to the political economy layer of analysis is to understand why the problem that has been identified is not being addressed successfully, whether the effort has been to change governance and institutional arrangements or to adopt better policies. For a planned operation, the political economy layer can assess the relative likelihood of stakeholder opposition or of failure to mitigate policy or governance risks successfully. Political economy analysis asks about underlying drivers, such as the relationship between stakeholders, available rents and how they are distributed, interests, collective action dilemmas, and incen-

Box 2: Defining feasible solutions—Zambia and Mongolia

In Mongolia, domestic funding for public investments increased more than fivefold between the early 2000s and 2008; but public investment planning remained rather ad hoc and subject to political jockeying—during budget preparation as well as at parliamentary approval stages—with limited regard for social and economic priorities.

One feature of the situation has been that the senior civil servants and politicians who express the greatest frustration with the existing situation favor the (re-)creation of a ministry or agency of planning. This is not considered to be good international practice, as there is a perceived risk of creating unproductive rivalries between the Ministry of Finance and such an agency or ministry. However, a planning agency is appealing to local stakeholders, since a similar institution existed in the past, which is seen as having delivered better results than the current system.

Thinking about feasible options suggests, first, that the emphasis should be on working with those interested in improvements—rather than insisting on particular institutional models. Second, it may not be realistic to de-politicize public investments overall, but rather it may be realistic to focus on some ‘bright lines’—such as simple, clear rules restricting the ad hoc adding of projects to public investment plan (PIP) lists, and promoting the vetting of major projects, which could help to limit the space for politicization and ensure a better targeting of funds on agreed priorities.

The Zambia ‘GAC for CAS’ pilot took a close look at governance and political economy issues concerning the power sector. The experience over the past decade has been one of ambitious efforts at policy reforms (unbundling, tariff restructuring and increases, creation of public-private partnerships, creation of an impartial regulator), followed by reversals when the government pulled back from unbundling and privatization plans. At the same time, the need for expansion and better maintenance in the electricity sector has intensified in the context of a growing economy and a booming mining sector.

The diagnostic analyzes the important role that the state-owned electricity company ZESCO plays in the context of Zambia’s patronage networks. Furthermore, mines and (better off) urban consumers have been the main beneficiaries of low electricity tariffs, while most of the poor have remained unconnected.

A potential feasible solution involves making ZESCO a full participant in planning reforms (rather than seeking its dismantling). Furthermore, an approach focused on feasibility could involve prioritizing to add new-generation capacity on the basis of full-cost pricing for the increment. Stakeholders with the greatest interest in better supply—mining companies and other potential business users—would pay full-cost tariffs for the added electricity, while investments would not be held back by waiting for overall tariff reform to materialize. For the medium term, the proposal is to engage private business associations and consumer associations in electricity-sector expansion and reform, in order to increase demand and to break out of the low-level equilibrium of unwillingness to pay higher tariffs and shoddy utilities.


a. ‘GAC for CAS’ was the term adopted for the country-level governance and political economy analyses undertaken in FY08 to inform upcoming country assistance strategies and as part of the overall governance and anti-corruption (GAC) implementation.
tives. Understanding such underlying factors better is important in efforts to improve policies and governance arrangements and ultimately in achieving development results.

In summary, a key lesson from experience is that GPE analysis is most useful when it is motivated to understand specific issues or challenges and hence is ‘problem-driven’. Furthermore, it is important to combine governance and institutional analysis with an analysis of underlying political economy drivers. In this way, GPE analysis goes beyond most types of governance assessments, which focus on identifying governance weaknesses but provide little exploration of why these exist or of the dynamics that could lead to change. At the same time, it emphasizes an explicit coverage of institutions rather than of stakeholders only.

The next section briefly sets out in what types of situations governance and political economy analysis as laid out here is most crucial and valuable. Section 1.3 discusses the crucial aim of PGPE analysis, namely to help teams identify feasible approaches to reforms. Part Two then turns to the practical questions of how GPE analysis can be translated into action or ‘doing things differently’. Parts Three and Four deepen the discussion about the analysis as such, the range of issues it may focus on, and how it can be evidenced.

I.2. WHEN IS GOVERNANCE AND POLITICAL ECONOMY ANALYSIS MOST CRUCIAL AND VALUABLE?

Governance and political economy analysis can be valuable in a variety of different contexts and situations. First and foremost, GPE analysis is important where and when governance and political economy factors appear to prevent progress that is otherwise considered possible from a technical perspective (‘developmental risk’). Secondly, country-level GPE analysis can be particularly relevant also in situations where significant reputational risks for the World Bank exist. Thirdly, where fiduciary risks are high, GPE can be valuable for understanding the drivers of a poor fiduciary environment and to define adequate responses.11

As Part Three below sets out, GPE analysis can be targeted at (i) the country, (ii) the sector or thematic or (iii) the particular policy or project level. Seeking to understand country-level dynamics is especially relevant during CAS/CPS/ISN preparation periods. This is particularly important when there is a sense that the overall country program or significant parts of the policy dialogue have not borne fruit in the past (e.g. as documented in the CAS Progress Report) or there have been a number of surprises in terms of policy action or inaction, or expected development progress that failed to materialize. It can also be important in situations when significant change has taken place in a country—such as a change in government, the emergence of natural resource exploitation, etc. Furthermore, country-level analysis is crucial in situations where major governance-related risks exist that could cause a halt to the Bank’s overall country program (e.g. risks of state fragility, a coup d’état, etc.), or where other types of reputational risks for the Bank are present. Finally, country-level GPE analysis provides an important ‘public good’ that benefits all the various teams working on a country—by facilitating a quicker, better understanding of country context when team members rotate, as well as by providing important background material if and

11. On these three types of risks see World Bank (2007a) (‘GAC Strategy’).
when the need for a more detailed understanding of political economy drivers emerges in a sector or related to particular projects.

Sector-level GPE analysis is especially relevant when envisaged reforms in a sector are significant and are likely to be difficult because of their distributional impact, their institutional complexity, and/or the structure of incentives and constraints. It is also important where changes in a sector or policy area have been on the agenda for a long time without ever materializing; or when earlier improvements in sector policies or outcomes were reversed. A related consideration is the ability of governments to ‘make reforms happen’, i.e. to manage institutional change as well as different stakeholder interests productively. Especially where experience suggests that this ability is limited and where consequently reforms may be left unaddressed, blocked or mismanaged, it can be crucial for a Bank team to invest in GPE-type analysis in order to gain a better understanding of the drivers and dynamics at play and how the team might best structure its own interventions and support. Ideally, sector-level analysis can build and draw on existing country-level work, which will signal overarching constraints and dynamics that can affect most or all sectors. Furthermore, often it can be helpful to use a value-chain approach for structuring sector as well as project focused analysis (see Campos and Pradhan 2007) and as a way to identify key points of risk or weakness in a sector.

For specific projects or policy questions (such as triggers to be used for policy lending), GPE analysis is most crucial if significant governance-related problems—including but not only corruption risks—are anticipated. In some contexts, a brief GPE diagnostic will be valuable in order to develop meaningful risk matrices, including a better understanding of the GPE drivers underlying fiduciary risks. In other cases, e.g. CDD-type projects or projects that aim to achieve positive distributional impacts for poorer groups, some understanding of local political economy drivers and risks of capture are essential for designing effective interventions and monitoring frameworks. Generally, many of the reforms that project teams seek to achieve—a more meritocratic civil service, better financial sector regulation, more effective management of natural resources, or better access to social services for the poor—involves changes to power relations, rent-seeking opportunities, or to ingrained incentive structures. Consequently, paying attention to GPE related risks and to possible mitigation and management strategies is important.

The scope and depth of PGPE-type analysis can be adjusted to fit what is needed in a particular case. Often, there are opportunities to draw on existing analysis—for example through a workshop with relevant local or international researchers. However, if the need is for more targeted information and answers to specific questions—such as seeking a GPE perspective on the design of CAS pillars, or to understand why power sector reforms have not materialized despite substantial policy dialogue and investment lending—and for advice on implications for Bank interventions, undertaking or commissioning dedicated analytic work is essential; while there are a range of options for fitting this within available resource and time constraints (see also Part Five).

A logical and coherent way for developing GPE analysis for sectors and projects-specific policies is by building on prior analysis of country-level dynamics (see also Annex 2 for a more in-depth discussion of the three levels). For an increasing number of countries, such analysis is now available, either undertaken by World Bank teams or other development partners. If the need for project/policy focused GPE diagnostics
emerges where no prior analysis of country and sector level dynamics is available, it may often be necessary to include at least a brief sketch of country-level dynamics as well as of the overall value-chain of the sector. Some project-related problems are likely to be rooted in the wider country context (e.g. bribes and kick-backs linked to country-level problems with illicit financing of political election campaigns), others can be linked to other ‘break’ points in the sector value chain—further upstream or downstream—while yet others are highly specific to the particular project intervention or locality. Therefore, in order to generate sensible solutions it is important that more micro-level GPE analysis is able to link up to wider sector or country-level issues to the degree that this is feasible given existing work, as well as time and resource constraints.

The sensitivity of GPE analysis varies significantly across countries and issues. Crucially, and as set out repeatedly in this framework, the World Bank undertakes such analysis with the aim of enhancing development effectiveness—including the definition of feasible reforms as discussed in the next section. The analytic work may be done to inform Bank staff and management only or it may be shared and discussed with country stakeholders—in whatever form is sensible and appropriate to the specific context and to the overall goal of furthering development effectiveness (see Part Five for a more detailed discussion).

I.2. GOOD ENOUGH GOVERNANCE AND FEASIBLE APPROACHES TO REFORM

In many cases, the implications resulting from GPE analysis will entail considering feasible options for reforms. As Rodrik (2008b) argues: “…dealing with the institutional landscape in developing economies requires a second-best mindset. In such settings, a focus on best-practice institutions not only creates blind spots, leading us to overlook reforms that might achieve the desired ends at lower cost, it can also backfire.” While ‘first best solutions’ are technically superior in a textbook sense, this advantage can be lost or even reversed under real-world conditions if the solutions are only partially implemented, are stalled or reversed because they are politically unpalatable, or trigger unintended consequences during implementation (such as privatization creating monopolies or reforms leading to institutional breakdowns rather than improvements).

At the same time, ‘feasible’ reform options are also clearly distinct from ‘default options’, that is, the reform path or non-reform path that would result from no intervention or effort at change. Because ‘feasible solutions’ are sensitive to the political economy context, they should in principle also be more compatible with country ownership, a key principle of the development effectiveness agenda. It can be challenging to identify a ‘good enough’ solution that is feasible, has a relevant development pay-off, and offers the potential of preparing the ground for further improvements later on. However, experience from pilot cases shows that searching for such solutions is a worthwhile exercise. It helps teams to think through their assumptions and to consider in much greater detail the range of short- to medium-term reform options. It also helps teams think about the steps that would be involved in moving from an existing situation to a better one, such as improved regulation or a better distribution of responsibilities or incrementally improved systems.

Finding feasible approaches to reform may include prioritizing what vulnerabilities/concerns can be addressed with a reasonable chance
of success and proposing how governance arrangements can be improved in a way that (a) is feasible, (b) is not likely to be subverted by political economy drivers, and (c) would channel political economy drivers more productively in achieving development and poverty reduction. This includes interventions, based on a careful assessment, that might proactively seek to ease political economy constraints, for example by supporting coalitions for change, promoting a better-informed public debate, and so on.

‘Good enough governance’ captures the idea of considering the change process as moving from worse to better governance environments, and of focusing on priorities and gradual improvements rather than trying to reform governance wholesale—whether at the macro, core, or sector level (see Grindle 2007, Khan 2006). Importantly, the concept of ‘good enough’ does not imply giving up on ‘good governance’ as a principle. Rather, it acknowledges the practical challenge that under real-world conditions, not all desirable governance improvements are affordable or feasible in the short to medium term, and that feasible, gradual improvements may have tangible payoffs for development goals.

PGPE analysis can incorporate the notions of ‘good enough governance’ and feasible options into the process of defining implications and proposals regarding how best to move forward with reforms. As discussed in Part Five, this will be most useful and operationally relevant if done in close interaction with the country or task teams working on the reform area concerned.
In the past, political economy analysis has sometimes been seen as an approach that is more likely to point to obstacles than to find solutions. This good practice framework seeks to lay out how problem-driven GPE diagnostics can explain why reforms may be difficult as well as providing options for solutions. At the opposite extreme is a perception that, once we understand the interests and incentives of stakeholders better, we can manage reforms much more effectively, work with champions and coalitions for change, foster better leaders, and achieve enhanced results rather quickly. Such expectations can also be misleading, not least given the fact that the World Bank is only one among a multitude of stakeholders in any given country. Nonetheless, GPE analysis can yield tangible incremental benefits for country programs and operations, and ultimately, therefore, also for aid effectiveness and for a country’s development outcomes.

Problem-driven GPE analysis can be translated into action in various ways. It can provide political intelligence for agreement on what is feasible within teams and with management; moreover, it can help to shape strategies and operations in ways that range from adjusting them to the existing space for change/reforms, to the development of proactive strategies for expanding the space for change/reforms (see Figure 2). The different ways of using GPE analysis are not mutually exclusive. For example, country-level analysis may mainly be used to inform a country strategy, while specific notes may be used to shape a proactive strategy for a particular reform issue, such as a campaign to ensure that medicines and vaccines are reliably supplied to rural areas, or to build support for public procurement reform. Crucially, in order to provide actionable implications, GPE analysis needs to be sufficiently specific, and several GPE notes may be needed if the intent is to inform a range of issues and questions. (Note that various options for focusing GPE analysis are discussed in Part Three.) The following paragraphs describe the various uses in greater detail, including examples from recent experience.

Country situations matter for deciding what action is right. Countries might be in steady-state situations, in which reforms are quite feasible but stakeholders feel only limited urgency. They might be in situations of hidden or obvi-
ous fragility, which often means that many stakeholders are disinclined to take risks. Or they might be in transformative moments, offering wider windows of opportunity as well as risks and uncertainty (for example over whether major shifts in who governs will result in real momentum for policy improvements). Fiscal windfalls and, in the reverse, negative fiscal shocks each can create different constraints and opportunities to pursue change. The findings from GPE analysis, especially if it includes the country level, as well as the country team’s sense of the situation, can guide the choice of actions.

One important implication of GPE analysis can be greater awareness of risks and of options for managing risk. This includes a better awareness of the potential unintended (negative) consequences that first-best solutions may entail. One frequently encountered risk is that of ambitious policy reform efforts contributing to significant implementation gaps. In such situations, formal legal provisions are reformed, but incentives, capacity constraints, or the wider institutional environment vitiate real implementation, and this in turn can undermine longer-term institutional strengthening as well as the actual results for the sector or issue of concern. Another frequent risk is that of relying strongly on selected ‘champions’ of reforms, as well as interacting exclusively with the current government rather than policy stakeholders more broadly. Such strategies have repeatedly backfired when changes in personnel or in the overall government occur. GPE analysis can indicate options for managing such risks better.

One general lesson on how to translate analysis into ‘doing things differently’ is the need for team and management attention. This includes attention to managing the diagnostic well (as described in detail in Part Five), for example, by integrating technical and GPE teams when major operations are being prepared. It may require attention to organizing country or sector team workshops to discuss findings from GPE
analyses and to distill what they imply for strategies and/or operations; or to call on GPE expertise in the course of implementing an operation. As described below, if teams decide that a proactive approach is needed to move reforms forward, this also requires attention and management. The benefit for teams and management is that ‘GPE-smart’ strategizing may have real payoffs for programs and operations.

II.1. INFORMING BANK TEAMS AND ADJUSTING STRATEGIES AND OPERATIONS TO AN EXISTING SPACE FOR CHANGE

A basic way of using GPE analysis is to have it inform country strategies and operations (see the left-hand side of the spectrum in figure 2). GPE analysis helps to create a better understanding of the environment in which operations take place and in which strategic results are being pursued, and helps to spell out crucial governance and political (economy) risks. This can be valuable for creating a shared understanding of the environment across a team as well as for agreeing with management and reviewers on country programs and/or specific operations that are realistic and feasible. GPE analysis also helps to preserve and transmit such an understanding when staff changes.1

Beyond a more limited use of informing teams, GPE analysis should provide and be used to draw implications for the design of strategies and operations. In many instances, these impli-

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1. Often, new staff will need several months to understand the political economy intricacies of their area. Even a brief analysis can substantially accelerate this understanding, and it can also help to set the political economy problems perceived in a particular area into the wider country context.
cations are ‘reactive’, that is, they are aimed at adjusting strategies and/or operations to an existing space for change:

i. Influencing the country strategy in terms of priorities, and in terms of defining feasible reforms and entry points, as well as possibly proposing new monitoring components that are particularly relevant from a political economy perspective. PGPE analysis can be useful at any point in the country assistance strategy (CAS) cycle, but there is added value if it is done upstream of the CAS/ISN. At this point, it can be vital to clarify what the potential for progress is across the various areas/pillars of the CAS, as well as how this envelope may be stretched. If specific governance-related monitoring indicators are included in the CAS, this helps to keep a focus on these issues, even if teams change—in a way that is very specific and pertinent to the problems and issues faced by country teams.

ii. Enhancing the design of operations, in terms of the what and the how; helping to anticipate problems that are likely to emerge during project implementation and to think ahead about how to manage them.

II.2. ENHANCING AND BROADENING POLICY DIALOGUE AND DEVELOPING INNOVATIVE APPROACHES TO OPERATIONS

If context permits, GPE analysis can contribute to enhancing the policy dialogue, and to developing innovative approaches to operations. Problem-driven GPE analysis can make important contributions to enriching the policy dialogue in-country because it can create a much better understanding of the interests and incentives of stakeholders and the formal and informal institutional landscape within which they operate (the middle of the spectrum in figure 2). As set out below (Annex 1), a pure ‘common sense’ approach to political economy can sometimes result in perceiving stakeholders as clearly divided into ‘opponents’ and ‘reform champions’, as well as to a rather narrow focus on certain stakeholders. GPE analysis can foster a more granular understanding of the incentives and constraints that influence the behavior of different stakeholders and the implications for pursuing reforms, and can also pro-actively broaden the circle of stakeholders the Bank seeks to bring together in support of development policies.

When GPE analysis can be done in an open manner, it will often involve stakeholders that many task teams do not routinely engage with. As a result, it helps establish expanded relationships and networks for dialogue and for promoting change. A broader set of stakeholders may include policy-focused think tanks, policy thinkers within political parties (who are not necessarily members of the executive), and NGO representatives. Moreover, a deepened understanding based on GPE analysis can be an important boon to working effectively with reform-oriented individuals and groups/coalitions.

Problem-driven GPE can support innovative approaches to operations. For example, teams may recognize that it is important as well as feasible to promote a better informed public debate on reform issues and policy options. Or it may become apparent that monitoring efforts by local stakeholders can be encouraged and supported in order to limit corruption and achieve results more effectively. To pursue such innovative approaches, a good integration of technical and GPE-focused diagnostic work is vital. Management attention and follow-up is also very important. The mining sector TA in Mongolia, described in Box 4, and support for
the Paraguay roads project both provide good examples of innovative approaches, focusing on (i) promoting a better informed public debate on important issues, and (ii) generating greater transparency and accountability.

II.3. USING GPE ANALYSIS TO DEVELOP CAMPAIGNS FOR CHANGE PROACTIVELY

In a number of instances, the ultimate aim is to widen the space for change (the right-hand side of the spectrum in figure 2). Various elements of GPE analysis can help decide whether it is worthwhile to pursue a proactive strategy of building momentum for reforms. Such a decision is necessarily context- and issue-specific. The main avenues for building traction for change are coalition-building, information and communication campaigns, and generally intensified work with stakeholders, in particular stakeholders who can exercise demand for progressive change.

1. Information and communications strategies: such strategies are intended to inform citizens at large about the potential benefits of change compared to the status quo. Strategies would use media and other outlets that can reach relevant citizens (such as radio stations broadcasting in rural areas or billboards in specific urban neighborhoods). Information campaigns can help governments to move forward with reforms if they are concerned that the reforms may be unpopular; in other situations, such cam-

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**Box 4: Mongolia—developing an innovative approach to Mining Sector TA**

Dealing with a mining boom has been a major policy and political challenge in Mongolia—a country that has rich deposits of copper, gold, coal, uranium, and other minerals. A large number of deposits have been explored in recent years, while existing mines have become far more profitable. At the same time, there have been numerous public protests over mining sector issues. A key focus is how contracts and agreements are being negotiated with foreign investors. Many Mongolian citizens broadly favor public ownership of mining; while at the same time also demanding transparency from state officials regarding mining sector decisions. This was corroborated by a public opinion poll undertaken as part of the GPE assessment. The government is keen to benefit from access to international experience and advice on how to tackle the difficult policy challenges. At the same time, there has been an element of distrust, as the World Bank is perceived as having been a key supporter of a very liberal mining law that was adopted in 1997 during a period of low prices. The law has since been revised.

The GPE analysis squarely focused on mining sector issues, covering many of the elements of the value chain (see section 3.2), from mining licensing to how the windfall public funds are being used to foster long-term development. The analysis helped the country team and the task team that were preparing a major new Mining Sector TA think through and understand the complexity of the existing institutions and stakeholder interests and incentives, in a way that an exclusively technical analysis would not have been able to. A crucial finding was that there is an urgent need to support a more informed public debate about options for regulating and managing the mining sector and its associated opportunities and risks, and to do so by working with a broad set of stakeholders, reaching out beyond the executive in multiple ways. In particular, the project will support a local think tank dedicated to mining sector issues in this commodity dependent country.

*Source: Authors.*
Campaigns may also be intended to increase demand for change, or to focus demand on specific policy actions.

ii. **Intensified work with key stakeholders**: for certain issues of change, it may be crucial to intensify the dialogue with key stakeholders, including stakeholders that the Bank traditionally has limited interaction with, such as MPs. Such intensified dialogue can serve to deepen the understanding of reform issues and/or to win support for certain reform options.

iii. **Coalition-building**: working pro-actively with a range of stakeholders interested in change, including seeking to convince undecided/hesitant stakeholders to join a pro-change platform (see the example of the Philippines’ procurement reform process, Box 5). Potential pro-reform stakeholders can be brought together in various forums to develop concrete proposals for reform, to agree on positions, and to coordinate actions. The key aim should be to support progressive coalitions, while accepting that these define the scope and precise direction of change they want to pursue (that is, they have ownership of reform agendas).

**Box 5: Philippines—building a coalition for procurement reform**

Public procurement in the Philippines was perceived to be a major governance challenge. A process of procurement reform was triggered in 1998 by a detailed technical report commissioned by USAID. Initially, however, the report developed little traction and was shelved. However, a series of workshops involving government and nongovernment stakeholders revived demand for procurement reform. In early 2001, Procurement Watch (PWI) was established as an advocacy NGO, founded by academics, reputable retired government officials, lawyers, and concerned private-sector executives. PWI was funded through an EC-WB grant/trust fund (TF). The grant covered most of the costs of organizing people and groups in order to advocate for the passage of a new procurement bill. PWI raised the awareness for this issue by mobilizing public support and implementing a broad media campaign.

In early 2003, a new Government Procurement Reform Act (GPRA) was adopted, a first major success of the campaign. The challenge since 2003 has been to ensure implementation. Initially, the focus was on capacity building for government officials at various layers of government. While this was important, after some years there was a sense that advocacy had to be revived in order to have greater impact. Since then, activities have focused successively on different sectors. The procurement of regular goods, for example, became fully transparent and monitorable online [Philippine Government Electronic Procurement System]. The Philippines Boy Scouts became involved in monitoring the procurement of school textbooks. Currently, there are plans for senior citizens associations to start monitoring drug procurement.

The overarching lessons of this project concerned the importance of getting the right people engaged and forming a broad and focused coalition of stakeholders. Proactive and professional civil society engagement, the formation of a tightly knit group of reform-minded government officials, the support of progressive legislators who knew how to traverse the complex legislative maze, the conduct of in-depth technical studies, and the implementation of a well-thought-out communication strategy all contributed to effectively mobilizing public action that led to the adoption of the new procurement legislation and supported its subsequent implementation. The biggest challenge remaining is in infrastructure procurement, where only limited but nonetheless noticeable progress has been made to date.

*Source: Ed Campos, Caby Verzosa.*
Especially when teams want to use GPE analysis to pursue a proactive approach to change, there are several important concerns to take into account. Most crucially, the Bank has to be an honest broker, and such efforts need to be in line with the general principle of Bank operations to respect the preferences and choices of local stakeholders, who will in any case be decisive in most instances, especially when it comes to the actual implementation of change. Therefore, there is a need for real and substantive dialogue with a range of local stakeholders. Furthermore, the more an approach is proactive, the more it will require resources—including staff and management time and attention, financial resources to organize meetings, support for local think tanks and NGOs, and funding for communications strategies. At least in part, the financial resources may be borne by others (such as government, bilateral donor agencies, and foundations), but at a minimum, Bank teams will need to dedicate staff and management time. Management attention is particularly important where political sensitivities may need to be addressed at various stages. That said, the potential rewards for intermediate and proactive strategies can be substantial, and in certain difficult areas this may be the only way to achieve progress.

Furthermore, teams need to decide carefully whether a more reactive or pro-active approach is most appropriate and feasible. A proactive approach is not necessarily always superior. In fragile contexts or where political stability is at risk, special care needs to be taken. A variety of local voices should be heard regarding whether or not a more proactive strategy is advisable. At a minimum, using GPE analysis to inform and shape strategies and operations is likely to lead to more appropriate Bank programs than has been the case where programs have been informed exclusively by technical analysis and have tended to disregard country and reform contexts.

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2. Note that local stakeholders are often not unified in their preferences (i.e. there is a greater variety to local preferences than the current official government declaration/policy). Various types of surveys can be used to tease out local preferences as well as gauge how well preferences are informed by evidence/available information.
One can distinguish three broad levels of PGPE analysis: the macro or country-level, the sector and thematic level, and the project- and policy-specific level. GPE analysis can focus at one level only, or cover several levels, usually through a set of notes.¹ This allows tailoring the analysis to the specific needs of a team, as well as to the existing context, including the fact that the density of prior analytic work varies significantly across countries. Teams engaged in strategy planning—for example, preparing a country assistance strategy (CAS) or a major DPL or re-engaging with a country—may want to cover the country level as well as one or several key sectors. Task teams working on one particular operation will be most interested in project- and possibly sector-focused GPE analysis—which ideally can benefit from and draw on existing country-level analysis.

i. **Country-level analysis seeks to capture the overall governance situation and the main political economy drivers.** Analysis at this level serves to capture important factors, such as the geopolitical context, important social divisions, including ethnic or religious ones where relevant, how these have evolved over time (including the impact of past legacies on the current political and economic landscape), and the evolution of the political management of economic rents. Such analysis is crucial for reaching a common understanding of the country context in which the Bank Group operates. Its most direct uses are to inform country assistance strategies (or other strategies) and to serve as a background for a more specific GPE analysis.²

ii. **Sector and thematic PGPE analysis focuses on specific areas and may cover an entire sector ‘value chain’ (see Annex 2) or selected issues within a sector or (broad) theme.** GPE analysis of sectors complements technical analysis, such as technical studies of infrastructure needs or of capacity-building needs in the civil service. The analysis can inform CAS pillars, sector or thematic economic and sector work (such as CEMs for growth as a theme), as well as DPLs, investment lending operations, or TA.

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1. For example, most CGAC pilots combined a background paper on country-level issues with specific pieces on various sectors or themes.
2. As set out above, most existing tools developed by other development agencies address this level.
iii. The third level is problem-driven GPE analysis focused on specific projects and/or policy decisions. Such analysis is focused directly on generating advice to a single operation or to aid in dialogue on a specific policy issue.

Importantly, the different levels can be and often are combined. For example, country teams preparing a CAS or major DPL may commission an analysis that combines a summary of country-level GPE dynamics as well as two or three notes focused on specific sectors or themes. Such a combination was used in the CGAC GPE pilots in Mongolia, Zambia, Mali, and Lebanon (see the right-hand information in Figure 3). Similarly, sector task teams may ask for an analysis that sets out the sector-wide GPE context (and how it is linked to adjacent sectors and/or country dynamics), as well as addressing one or two questions around specific policy reforms—such as those to be defined as Prior Actions or benchmarks for a DPL. Each of the three levels is described in greater detail in Annex 2.

Ideally, PGPE analysis at any level should incorporate comparative thinking, even if the main interest is in one country or sector at a time. Comparative case studies are one of the fundamental methods used in the social sciences to test causation.\(^3\) Comparisons help assure that

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3. Originally based on the methods of inductive logic developed by John Stuart Mill. For recent discussions see King, Keohane, and Verba (1994); Ragin (1987).
analysis does not reach erroneous conclusions about causality. For example, a sector analysis may conclude that the lack of strong demand from citizens is a major cause for the lack of reforms in this area. However, in another sector in the same country, reforms may have occurred despite similarly weak demand. Consequently, the lack of citizen demand should perhaps not be considered the central cause or driver in the first sector.

For Bank teams, real comparative studies are often not a priority, given that they are interested in one particular country or sector at a time. However, within-country comparisons may be possible and of interest, for example when considering whether reforms have worked in other sectors in the same country, and what accounts for such differences in reform success. Furthermore, it may be fruitful to explore whether similar issues are being experienced in equivalent sectors in similar countries and/or with similar types of project interventions.

For a number of issues, it may be worth exploring whether countries with similar endowments and conditions have taken similar or rather diverging trajectories. This can help to capture what factors are making a difference and would merit attention through interventions. For example, two countries with comparable levels of income may have started from similar levels of literacy, but one country may clearly be moving ahead of the other. Some comparative exploration can help to tease out institutional and sociopolitical factors that account for different levels of commitment, effort, and results in expanding education, and this in turn can help to define what could be targeted in lagging countries.
Credible GPE analysis needs to be well evidenced. It needs to pull together a compelling ‘analytic narrative’ consistent with experience and systematically gathered data and information, while avoiding the pitfall of essentially providing technical analysis combined with some broad statements about governance and political economy. This balance needs to be struck on a case-by-case basis, as part of the process of defining the focus of the analysis, and based on the needs and intentions of the country or task team. As discussed further in Part Five, problem-driven GPE work should whenever possible be closely integrated with technically focused analysis and teams so that the two can be complementary and so that important synergies for operational implications can be reaped. Useful ways to structure the analysis and existing tools and experiences can also be found in the 2007 TIPS handbook (World Bank 2007c).

The three-layer model set out in Part One provides a broad guide for the evidencing process. The first layer, the problem to be analyzed, is usually what motivates the analysis, and hence would be reflected in the concept note or terms of reference (TOR). In many cases, it may be relevant to gather additional information for describing the problem in detail, and for getting a more precise grasp of the mechanisms by which GPE factors contribute to the poor outcome to be explained. For this, the GPE analysis is often able to draw on existing materials such as technical reports, investment climate assessments (ICAs), PERs, CEMs, or PAs, as well as on discussions with country, sector, or task teams. At times the GPE analysis may bring out that further technical information on vulnerabilities or challenges is needed.

At the heart of the analysis are institutional structures and governance arrangements, as well as stakeholders and their interests and incentives, and how all of these interact.

i. To the extent that they are available, GPE analysis should draw on any relevant pre-existing diagnostics, such as PETS, corruption assessments, and Public Expenditure and Financial Accountability (PEFA) assessments.

ii. Important sources for capturing institutional structures are laws and regulations, as well as organigrams and mappings of de jure and actual process flows (the latter is essential to capture informal rules and actual behaviors). For example, the analysis may map the formal as well as the actual
processes for setting electricity tariffs, or for approving public investment plans.

iii. The analysis may be able to utilize interesting sector-specific data (such as data about the size and relative importance of SOEs, data on hospital usage, absenteeism, information on pricing, and so on), as well as information about government policies, implementation status, public sector capacity in various areas, and so on.

iv. To the extent possible, the analysis should include coverage of informal institutions. This is essential for understanding whether formal rules are actually functioning as intended or not—which in turn has important implications for the kinds of policy and institutional changes that Bank operations and policy dialogue may seek.

v. Surveys of public opinion or of specific groups (such as business people) or household surveys that include governance-related questions may also be available and can provide evidence about whether governance arrangements are perceived to be delivering or not, the prevalence of integrity problems, and so on. Sometimes, commissioning a specific survey can also be useful, for example to understand what preferences different groups in society have regarding a specific issue or policy.

vi. Other written sources that may be useful to analyze include media coverage and records of parliamentary debates.

Apart from written sources, interviews with individuals and focus groups (where appropriate) are a crucial source of information. It is important to approach interviews systematically in order to extract key information. Interviews and discussions with well-informed individuals are essential for developing an understanding of political economy drivers, especially for issues on which little information is available either publicly or as the result of operational work. The most valuable interlocutors are individuals who have an overview of a situation and who are interested in discussing this information, for example because they share a conviction that reforms are needed.

i. Interviews with knowledgeable local stakeholders—not only researchers, journalists, civil society representatives, but also policy thinkers within government and political parties—are essential for building an understanding of the issues and political economy drivers. They should also yield information about social norms and de facto (as compared to de jure) rules of the game. Interviews can be done individually or as focus groups, with the former being preferable for more sensitive topics. Preparing precise questions is essential to gathering a rich and pertinent set of information through interviews.

ii. One-on-one discussions or workshops with Bank country or sector team members and local staff are a good way to capture their often considerable (tacit) knowledge about political economy issues.

iii. It is often good to snow-ball interviews: moving from a few initial interlocutors successively to a wider set. It is generally best to interview key individuals once initial information has been gathered, to be sure that the most pertinent questions can be asked.

iv. For detailed stakeholder analysis, interviews need to focus on stakeholder interests, what level of change they support or oppose, how much they care about an issue, and how much leverage they have over other stakeholders. Detailed information of this nature is especially essential when formalized stakeholder analysis tools are being
used (see Annex 1, Box 10), but it can be valuable also for less formalized analysis.

**A general core principle for evidencing GPE analysis is triangulation.** For interviews, this means posing a similar set of questions to multiple respondents in order to corroborate claims. It is also helpful if more anecdotal or 'soft’ information can be triangulated with ‘harder’ sources—such as actual budget and public investment allocations, information on differential pricing, asset declarations of public officials, a process-tracing of a certain chain of events, or tracing published or publicly accessible sources that reflect positions taken by individuals on the issue at hand (for example, on electricity tariffs, teacher training and wages, or governance arrangements for the financial sector).

**It is important to recognize that detailed evidencing of problem-driven GPE diagnostics can be challenging.** Pertinent data or information is not routinely collected by sources such as a country's national statistical office or ministry of finance, nor by World Bank teams/country offices. In addition, there may be issues with the accessibility of relevant data. Evidencing can be particularly challenging for sector-focused and thematic analysis. For country-level analysis, a greater amount of relevant information is often available through the national press or previously published analysis. For project or policy specific PGPE analysis, evidencing is made easier by the narrower focus of such work, which can often benefit from easier access to specific data sources and well informed people (especially if there is an existing operation and/or ongoing policy dialogue).

**Working with good local consultants is highly valuable to ensure well evidenced GPE analysis.** Local consultants can be important to identify and access useful sources of evidence, for accessing such data and for providing a first analysis. They can also give advice on potential interviewees, on process issues, and on the interpretation of the information gathered. Countries vary considerably with regard to how accepted it is to discuss governance problems with outsiders. Again, local consultants can be very important and helpful for understanding and interpreting nuances. They may also play a role in the follow-up and dissemination (see Part Five for a discussion of these issues). Identifying good local consultants for such work should therefore receive high priority.

**Inevitably, there is a trade-off between the depth of evidencing and resources allocated.** An in-depth, richly evidenced PGPE analysis will require more time and resources than a quick piece that is more conceptual, drawing on a few key interviews only. Teams commissioning problem-driven GPE analysis should be realistic in what they expect relative to the time and resources allocated. On the other hand, teams undertaking the analysis will often need to be creative in thinking about what could be useful sources of evidence, seeking to be systematic in collecting information and bringing it to bear on their story line in a convincing way.

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1. Attempts at triangulation can sometimes be challenging, since different interlocutors may contradict each other. In such cases, it is important to consider whether an interlocutor has an interest in raising a problem, exaggerating it, or denying/diminishing it.
Getting the process right is essential for PGPE analysis to be useful and effective. Quality GPE analysis benefits from a clear vision of the intention of the work. It should be clarified whether it is meant to inform Bank teams internally only, or whether it is also intended as an input for debates among country stakeholders. Likewise, the focus and the type of output being sought should be clear. Also necessary is a good understanding of the process and issues that are likely to appear along the way. Furthermore, it is vital to consider the follow-up process, how the analysis will feed into relevant programming, strategies, and operations, as described in Part Two above.

This section addresses the following five process issues:

V.1 Planning problem-driven GPE work
V.2 Defining and finding the necessary skills
V.3 Issues to consider regarding implementation of the diagnostics
V.4 Sharing and disseminating outputs
V.5 Bridging analysis and follow-up/action.

This section is primarily focused on how to produce a PGPE analysis that can effectively inform Bank strategies and operations. In situations where teams consider that PGPE analysis jointly with governments is feasible and desirable, additional process considerations apply. Here, interaction with country stakeholders is primarily raised with regard to follow-up processes, that is, the sharing and dissemination of PGPE diagnostics and the implications that may emerge for engaging differently with country stakeholders.

V.1. PLANNING GPE WORK AND LINKING IT TO OPERATIONS OR TECHNICAL ANALYSIS

As for other diagnostic work, good planning is important. Answering the question of why this work is being done and reaching clarity on the objective of the analysis and the questions to be investigated are crucial. As the problem-driven thrust of this framework emphasizes, the focus of PGPE work can be grounded in experienc-

1. Further advice on these issues is available ‘on-demand’ from the teams located in PRMPS and the GAC secretariat.
2. Agreeing on an inception report as a first output can be one way to achieve greater clarity as part of the process.
ing difficulties with prior operations, in seeking to respond to new development challenges (such as major shifts in property rights or dealing with regional inequality), or in diagnosing the governance and political economy dimensions of other major questions addressed through ESW. It is helpful if the concept note and TOR for the PGPE analysis clearly sets out the scope and focus of the work to be undertaken. For example, for sector work this can entail specifying which part of the sector value chain (as discussed in Annex 2, section II.2.1.2) is to be analyzed.

As a general rule, problem-driven GPE analysis will be particularly valuable if initiated upstream of a strategy (CAS/ISN) or an operation (DPL, investment lending, or major TA). Nevertheless, GPE analysis may also become a matter of urgency due to an economic crisis or a reform impasse or reversal, requiring real-time, rapid assessment, or when a window of opportunity opens up, for example due to changes in government, when Bank teams may be called on to support major new reform drives. Furthermore, in the case of multiyear strategies or operations, changes in events may trigger a need to update the analysis in order to provide an input into how the strategy or operation may best be adapted to the evolving situation. Therefore, at upstream stages, there is the greatest value in investing in substantial analysis. During implementation, when the issue is whether and how to adjust an operation or strategy, a brief note combined with hands-on advice to teams/TTLs is often most appropriate.

Country management’s commitment to and engagement with GPE analysis is important for reaping its potential strategic benefits to country programs and sector operations. Country directors or managers in many cases are the crucial hinge between undertaking the analysis and taking decisions on the follow-up (as set out in Part Two). Ideally, therefore, they should be involved from the start.

Moreover, linking GPE analysis well to other (ongoing) analytic and advisory activities (AAA) and to Bank operations is likely to increase its ultimate usefulness. At a very practical level this means involving sector/task teams in the design of problem-driven GPE, establishing links between the teams, and ensuring that GPE teams are fully aware of existing and ongoing technical analysis (including relevant drafts). Often, CMUs can play an important role in this regard.

PGPE analysis involves thinking through the kinds of data and information that will be needed for meaningful work. As discussed in Part Four, PGPE analysis may use a wide range of information and data, some of which may not routinely be collected by country offices, including opinion and other governance-related surveys, a mapping of sector processes, pricing information, and so on. Some up-front work by the local office or local consultants can be very helpful in ensuring that PGPE analysis is well evidenced.

V.2. HOW TO DEFINE AND FIND THE NECESSARY SKILLS

Getting the right skill set is essential to good problem-driven GPE analysis. The required skill set varies with the level and focus of analy-
sis. Especially for upstream substantial analytic work, it is best to have a small team, bringing together a set of skills. Matrix 1 summarizes key skills by level of analysis (the concrete skill requirements of each specific case may vary).

**In most cases, meeting this skill set requires a combination of at least two people.** The team may be composed of one person with strong political economy skills and another with detailed sector knowledge. Where part of the analysis is carried out by consultants, it is important that country or task team staff also be engaged (as hands-on TTLs), in order to ensure that the resulting work is relevant to the Bank as well as the subsequent uptake of the analysis. Furthermore, as a general rule, good local consultants should be included in PGPE teams whenever possible. Apart from their contribution to undertaking the actual analysis, local consultants can help navigate the process of disseminating the analysis and the follow-up process where it concerns local stakeholders.

<table>
<thead>
<tr>
<th>Level of analysis</th>
<th>Key skills</th>
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<tbody>
<tr>
<td>Country-level analysis</td>
<td>Country and/or regional knowledge and the ability to summarize key issues coherently and compellingly.</td>
</tr>
<tr>
<td></td>
<td>A good grasp of key concepts—such as stakeholders, institutions, rents—and experience in applying them in focused analysis to developing-country dynamics</td>
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<table>
<thead>
<tr>
<th>Thematic and sector-level analysis</th>
<th>A good grasp of key concepts—such as stakeholders, institutions, rents—and experience in applying them to concrete development challenges, such as sector reforms</th>
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<tbody>
<tr>
<td></td>
<td>Problem-solving, practical orientation; including an understanding of Bank operations and an appreciation of development effectiveness concerns</td>
</tr>
<tr>
<td></td>
<td>Experience in analyzing public sector issues, institutions, and processes (e.g., public investment, public sector employment issues) with cross-sectoral relevance</td>
</tr>
<tr>
<td></td>
<td>Knowledge about typical governance problems related to the theme or (sub-)sector to be analyzed and how they are linked to political economy drivers</td>
</tr>
<tr>
<td>(Team lead)</td>
<td>An ability to structure a task in terms of the analytic/investigative process and to produce a well-structured output</td>
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<tr>
<th>Project-focused analysis</th>
<th>Problem solving, practical orientation, including familiarity with Bank operations</th>
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<tbody>
<tr>
<td></td>
<td>Ability to apply key GPE concepts to project-level issues and challenges</td>
</tr>
<tr>
<td></td>
<td>Depending on the nature of the project and issue: familiarity with focus groups/participatory approaches</td>
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Experience with recent studies suggests that PGPE analysis benefits from a well-placed TTL. The TTL should be in a position to link the diagnostic work to the operational challenge it is meant to inform (a CAS, DPL, TA, etc.). Another important consideration is whether the TTL can commit sufficient time to ensure good planning, quality management, finalization, and dissemination. Ideally, the person leading the analysis would also be engaged in the actual follow-up of shaping operations and strategies, although this may not always be feasible. Ultimately, what works has to be decided on a case-by-case basis.

Once the required skill set has been defined, finding the right team is the next challenge. Problem-driven GPE-type analysis is still a relatively new area, so the number of staff and consultants with the desirable combination of skills and experience is still limited. However, the pool of people with the requisite experience is expanding continuously. The PREM anchor, regional PREM units, and other network anchors are often able to provide advice and recommendations. Some broad categories of potential consultants for problem-driven political economy work are summarized in Matrix 2.

PRMPS is currently working on building a roster of relevant consultants and the specific skills which they can bring to a team (with a focus on core political economy and core governance skills). This roster will complement rosters being created by Bank regional and sector teams with a governance and political economy focus.

V.3 IMPLEMENTING GPE DIAGNOSTIC WORK AND ENSURING QUALITY MANAGEMENT

Many of the challenges associated with implementing problem-driven GPE diagnostic work are similar to those for other AAA (such as insuring timeliness and collaboration with local consultants/researchers to foster local capacity). However, there are at least four specific challenges worth considering:

* **First, team involvement and openness are crucial.** The PGPE analysis will be more truly ‘problem driven’ and more focused if teams are willing to discuss what challenges have arisen with relevant country or sector programs in the past. Also, it is important that teams and local staff take the time to discuss their own perceptions of relevant political economy issues—of which they often have considerable tacit knowledge.

* **Second, PGPE analysis requires a decision whether to inform government explicitly of the work being undertaken.** As a general rule, teams have found it helpful to be open and to explain the motivation of such work, but the ultimate decision is on a case-by-case basis.

* **Third, it is essential to ensure good feedback to country/sector/task teams.** This is essential to validate the findings and to engage in the process of translating findings into operational implications and follow-up (see also Part Two).

* **Fourth, it is important to consider (especially) the downstream quality management for GPE analysis.** The basic components of quality management are upstream concept note preparation and reviews of draft outputs. Planning the downstream quality management process is essential for finalizing the outputs and for ensuring that there is a process for review and approval for such a (relatively) new type of work. It is also important to facilitate the production of outputs that can be shared within teams or more widely.
### Matrix 2: Types of consultants for problem-driven GPE analysis

<table>
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<tr>
<th>Type of consultant/affiliation</th>
<th>Typical strengths/weaknesses*</th>
</tr>
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| University-based political scientists | **Strengths:** can bring excellent country knowledge, or strong conceptual skills, and in some cases both; usually good writing skills.  
**Weaknesses:** experience with consultancy work varies; and (detailed) knowledge of development policy issues and operational approaches is often limited. |
|Researchers/consultants based at think tanks and consultants based at firms | **Strengths:** increasing pool of specific experience with similar type of work also for other agencies; good knowledge of development issues and operational approaches/aid issues in general; quality management within the firm/institute can reduce the need to micro-manage the product (once a contract is established); professional approach to handling the task and producing an output.  
**Weaknesses:** specific country knowledge may be more limited than among specialized academics; firm-based consultants, especially, have some incentive to apply cookie-cutter approaches; tend to be more costly than individual STCs. |
| Individual STCs with different backgrounds (including Bank retirees) | **Strengths:** vary; often know very well how the Bank operates (especially retirees and long-term STCs).  
**Weaknesses:** vary. |
| Regional consultants with varying backgrounds (e.g., in auditing and accounting vs. think thanks) | **Strengths:** can have a greater intuitive understanding of issues; familiarity with typical problems in the region, e.g. in sectors; language skills.  
**Weaknesses:** report structuring/writing skills vary; possibly some reluctance to tackle difficult political economy questions. |
| Local consultants (with various affiliations) | **Strengths:** detailed country knowledge (although attention needs to be paid to familiarity with the actual issue at hand); can have good contacts in country and familiarity with how to access various data and information  
**Weaknesses:** report structuring/writing skills vary; risks related to interpreting TOR can be greater—so discussing TOR is important; sometimes serious problems with over-commitment of good local consultants resulting in delays in delivery; may have their own political biases which need to be taken into account. |

*Note: these are very much generalized and may differ greatly depending on the individual consultant.*
**Box 6: Dissemination experiences of pilot teams**

In most countries where PGPE-type analysis has been undertaken in recent months, teams have either disseminated synthesis notes to government and other stakeholders, or are planning to do so; and they also have informed governments of the intent to undertake such analysis up front. In contrast to individual earlier experiences, no country team involved in these recent processes has experienced major difficulties as the result of undertaking GPE analysis; and the goals of improving development effectiveness and understanding country context better are appreciated by most local stakeholders.

Nonetheless, many CGAC/GAC for CAS pilots have grappled with challenges in dissemination. The first steps have been intensive interaction and feedback to country and task teams through one-on-one discussions, circulation of the diagnostic notes to task team leaders, and workshops. In Uzbekistan, key points of the governance diagnostic were disseminated to a wide range of stakeholders as part of the CAS consultations. Outputs from the Indonesia, Mongolia, and Zambia analytic work have begun to be disseminated especially through PowerPoint presentations to a variety of internal Bank audiences, as well as to other development partners.

*Source: Authors.*

**V.4 SHARING/DISSEMINATING OUTPUTS**

The question whether and how to share and disseminate PGPE analysis is often a crucial and sensitive one. At one extreme, PGPE work is undertaken, but its outputs are only shared with two or three key members of the country team, because of the perceived sensitive nature of such reports. Other work has been published as working papers or as chapters of ESW or other formats (see for example: Campos and Syquia 2006; Lal 2006; World Bank 2008a). DfID has made many of its Drivers of Change studies publicly available through an outsourced knowledge repository website that it sponsors.5

As set out below, there is a wide range of options between keeping circulation limited to a few people only and fully publishing a document. Very limited circulation has a considerable cost in terms of reducing the usefulness and effectiveness of any PGPE work, and should generally be considered only if the document is extremely sensitive for some reason.

PRMPS is currently developing an internal SharePoint site, which will allow invited World Bank users to access PGPE-related materials and reports.6 The intention is to provide a space where the confidentiality of such documents can be protected, but that at the same time allows an effective community of practice to emerge across the institution.

Following are further considerations and options for sharing/dissemination:

- *Country context and the relationship between the Bank and country stakeholders vary greatly, and dissemination choices are dependent on these specific contexts. The default option should be to seek wide(r) dissemination, but this may not always be possible (see also DAC principles on Donor Approaches to Governance Assessments 2009).*

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A central aim should be to ensure that GPE diagnostics reach their primary audience—operations staff and managers in country, sector, or task teams responsible for shaping relevant strategies or operations. As discussed above, ideally members of relevant staff teams will have been involved in generating the GPE analysis, but it is important to disseminate the results among teams as well as management in order to promote reflection on implications and discussions about follow-up. Furthermore, in-depth country or sector level analysis should not only reach current staff but also be helpful for transferring GPE insights when staff changes—which frequently happens while earlier designed strategies or operations are still under implementation.

Generally, it is desirable to share at least a synthesis output (that is not overly bland) with a range of stakeholders, including the country government and nongovernment stakeholders. This helps to reap the full benefits from undertaking the analysis, and helps prevent any misleading assumptions. Shareable versions are also useful for interacting with other development partners in-country. In-country workshops can offer an opportunity to engage with a range of stakeholders in discussing and validating findings and in drawing out implications.

More sensitive information can always be made available as a background note or exclusively during workshops. In general, the role of GPE analysis is to analyze how governance arrangements and political economy drivers affect Bank operations, rather than arguing ad personam or providing any kind of ‘forensic’ diagnosis.

Certain types of data are by nature less controversial. Public opinion surveys on governance arrangements, diagnosis of certain policy issues, or the effectiveness of accountability—these can be shared as a more ‘neutral’ form of evidence as well as a way to corroborate judgments.

V.5. MOVING FROM ANALYSIS TO FOLLOW-UP

Creating an effective link between analysis and follow-up requires attention and the timely initiation of a subsequent process. As set out in Part Two, there are a number of ways in which problem-driven GPE analysis can be used to inform and shape strategies and operations. The process of moving from analysis to follow-up usually starts once initial complete drafts of the analysis are available; it should not wait until the written reports are fully finalized. A workshop with the country/sector/task team will often be useful at this stage to review and debate the findings and to discuss what implications these findings have for strategies or operations.

There is therefore a dual review process for PGPE analysis: one review focused on the quality of the product itself and the other focused on whether and how to take the analysis on board. Especially if GPE analysis is used to inform a sector where reforms have been stalled or reversed, defining implications may require an intense, detailed, and in-depth discussion between the GPE analysis and the sector team.

A discussion about the implications and follow-up can focus on the range of options between a more reactive and a more proactive approach, as described in Part Two. In particular, if there is an intention to pursue an intermediate or more proactive approach, there is then a need to reflect on how this can be realized. To date, such follow-up work has often drawn on trust funds and other kinds of non-core resources.

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8. See also an interesting summary of the experience with a multi-donor governance assessment based on the EU’s governance profile (i.e. country-level diagnostic) in Cameroon http://www.oecd.org/dataoecd/24/27/40094521.pdf.
This good practice framework has sought to set out some key points regarding concepts and approaches for problem-driven governance and PGPE diagnostics, and some issues and experiences regarding how to implement and use such diagnostics.

Three points are especially worth reiterating and emphasizing:

- The ultimate objective and motivation for such analytic work is to develop more feasible approaches to reforms in order to enhance development effectiveness.
- The work can be most successful if teams are open to and actively engage in this diagnostic work, articulating needs and a clear focus and pursuing the synergies between technical and GPE-type diagnostic work, as well as engaging in frank discussions of tacit knowledge, past experience, and upcoming challenges.
- There is an emerging community of practice both inside and outside the Bank, which teams pursuing such work can tap into (and become part of).

Given the rapidly expanding interest in such work and the scaling up that has been enabled, not least by the Governance Partnership Facility, it is expected that a much richer set of experiences will become available in the course of FY2009–10. The intention is to update this framework based in due course as new experience accumulates and new needs emerge.

Feedback from task teams regarding this framework is therefore strongly encouraged and may periodically be actively sought by the GAC/Public Sector Governance team.
A wide-ranging and fast-growing academic social science and policy literature provides insights and applied investigative methodologies into the political economy of developing countries. This annex highlights some essential concepts and approaches relevant for PGPE analysis. The annex is not meant as a comprehensive literature review; rather, it flags key issues and approaches to operationalizing political economy analysis to help support engagement by international development partners such as the World Bank. The aim is to provide a succinct overview of key approaches and concepts, which in turn can be complemented over time with relevant case practice from applied analysis in this area. The approaches discussed here are particularly relevant for targeting the second and third diagnostic layers: governance arrangements and underlying political economy drivers.

I.1. THREE CLUSTERS OF DRIVERS: STRUCTURES, INSTITUTIONS, ACTORS

Three key types of factors or variable are commonly considered in PGPE analysis: structures, institutions, and actors (see Figure 4). These factors are relevant for the second and the third layers of the analysis. Analyzing institutional variables most directly informs the second layer (governance arrangements), while the dynamics between the three types of variables and the incentives and interests they generate for actors/stakeholders are crucial for analyzing underlying political economy drivers.

Structural factors can be understood as deeper features that affect the political economy of the respective country. These tend to change only slowly over time and are beyond the direct control of (local) stakeholders. One such
feature is geographic and resource endowments. For example, high dependence on natural resource exports can subject countries to the volatility associated with commodity prices, and as highlighted in the literature, the nature of resource endowments can significantly shape the development and institutional trajectory of countries. The analysis may therefore wish to refer to relevant comparative literature discussing the potential relevance of particular structural factors for shaping and interacting with prevailing institutional/governance arrangements.3

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3. For example, the recent ‘resource curse’ literature has highlighted the impact of the specific nature of a resource endowment (e.g., point versus diffuse nature resource). The specific type of diamonds endowment in Botswana has been associated with that country's relative success.
Other structural factors may be a high level of international migration and reliance on remittances (see the case of Moldova in Box 7).

**Institutional variables** are those related to ‘the rules of the game’ (laws and regulations, as well as informal rules, such as social obligations). Institutional variables may be of overarching importance in the political economy of a setting. In a wider sense, these variables also comprise the ways in which a public sector is organized. Depending on the focus and level of analysis (country or sector or operation), the investigation may focus on institutions of relevance to a particular ‘problem-area’—such as the regulatory arrangements in the electricity sector. At the country level, the constitutional set-up and regime type are key institutional variables. Also, electoral rules can be of considerable interest (see Annex 2 below), as they create incentives for the kinds of policies and budgetary resource allocations that politicians seek. Similarly, rules governing the policy process (or their weakness/absence) can be highly relevant for the degree to which private interests can influence the content of laws.

**Actors or stakeholders** comprise individuals as well as organized groups such as political parties, the military (and, in some cases, powerful secret services), business associations, NGOs, traditional associations, etc. Importantly, external stakeholders, such as donors, foreign policy actors, or foreign investors, often also play important roles, for example, in negotiations over policies, rules for foreign investment and foreign trade, or in cross-border water and transport management.

As Figure 4 reflects, the three types of variables can interact in numerous ways. For example, shifts in international commodity prices can have major repercussions for the nature of rents and rent distribution among actors in a given country. A key tenet of institutional economics is that (formal) institutions constrain or channel the ways in which stakeholders behave.
However, because formal institutions tend to be weaker in developing than in developed countries, stakeholders more frequently seek to change formal rules (trying to reform them, or trying to shape them more to their own advantage); and it is also more frequent that formal rules become largely unobserved (such as the requirement to produce annual audit reports), and hence the exercise of private interests by those in power is less constrained.

The framework in Figure 4 presents a stylized way of thinking about governance and political economy and the interaction between the three sets of variables. Thinking in terms of variables and how they interrelate can be helpful for structuring information and data, and for distilling a ‘story line’. Such a framework can be used for framing the concrete, problem-focused analysis and for structuring the inquiry process (while it may not always be suitable as an outline of the resulting report or output).

A crucial task of PGPE analysis is to capture how the interactions between these variables impact on the problem or vulnerability at hand, including dynamics and trends. Box 7 gives a brief summary of how the interactions between these variables were captured in the Moldova CGAC analysis.

I.2. CAPTURING HISTORICAL LEGACIES

Historical legacies often have profound effects on shaping current dynamics in countries where development partners are engaging. Capturing such longer processes, and how societies continue to deal with them, provides depth and perspective to the issue of ‘how things have become the way they are today’. Such analysis capturing the longer run will typically mean reaching back several decades, and possibly even to pre-colonial periods where applicable. The analytical challenge of this type of work lies in summarizing the key lines of evolution, and the interplay of structures, institutions, and actors (including external ones) in shaping these lines. It means asking for a summary of key trends, events, processes, and policies which give shape to the current situation—while it is not a detailed historical analysis that would trace the many twist and turns of a country’s history over the past couple of decades.

The relevance of historical legacies for current development challenges may often not be sufficiently explored. World Bank teams frequently work in countries which have received limited attention from academic scholars, or where existing attention has never really explored the link between legacies and present constellations. Especially in settings where analysis of country context is missing or scarce, it can be valuable to include such a perspective into GPE analysis as part of understanding the broader context of Bank strategies, operations, and engagement problems.

In particular, past conflicts and tensions may be important to understand, as they can shape attitudes long beyond their original occurrence. Examples are the legacies of war and tensions in the Congo, the Balkans, or the Middle East. Internal conflicts between minorities and majorities can also cast long shadows. In many countries, colonial histories and the decolonization experience have shaped institutions as well as external relations in ways which still exert an influence on political stability or a state’s institutional features today. In formerly communist countries, it is often important to have a grasp of how privatization proceeded—which for most countries involved massive re-distributions of wealth, as well as sharp departures in terms of social security versus opportunities—and how this was linked to the process of political transformations. More generally, historical patterns of
In the short to medium term, the main dynamics are those between institutions and stakeholders. As set out above, the two are linked as actors shape institutions (especially where formal institutions are weak/volatile) and, vice versa, institutions influence the incentives and constraints that stakeholders face.

I.3. INSTITUTIONAL AND STAKEHOLDER MAPPING AND ANALYZING INFORMAL INSTITUTIONS

In the short to medium term, the main dynamics are those between institutions and stakeholders. As set out above, the two are linked as actors shape institutions (especially where formal institutions are weak/volatile) and, vice versa, institutions influence the incentives and constraints that stakeholders face.

I.3.1. Mapping institutions

Mapping institutions is valuable in three ways: firstly, it creates a clearer understanding about the setting in which stakeholders operate, and how this shapes their interests and incentives. Secondly, especially in areas of new or expanding operations in a sector, institutional mapping enables a clear understanding of the coun-

Box 8: Formal and informal institutions

“Informal institutions—family and kinship structures, traditions, and social norms—not only matter for development, but they are often decisive factors in shaping policy outcomes in environments of weak states and poor governance structures.” (OECD, 2007)

Formal institutions are codified—e.g. as laws and regulations—and usually have formal sanctioning mechanisms to make them effective. Informal institutions are norms and social practices rooted in history and culture; but they can also emerge as the result of the weakness, erosion or collapse of formal institutions. The enforcement mechanisms for informal institutions range from an adherence to internalized norms and expectations of reciprocity, to social shunning and ostracism, to threats and the use of violence.

Informal institutions exist in any society, as not all rules can or should be codified. However, the relationship between formal and informal institutions is very important, because their interaction often shapes outcomes such as policy decisions or the implementation of policies. There are four relationships:

i. Complementary—i.e. informal institutions support the effectiveness of formal institutions

ii. Accommodating—there is an acceptance of formal institutions, but informal institutions circumvent these to some degree.

iii. Substituting—informal institutions fill a void that is left by missing or incomplete formal institutions. Informal credit markets and informal ways of contract enforcement are examples.

iv. Competing or subverting—informal institutions diverge from, contradict, or contravene formal institutions. Budget adjustments based on phone calls from the president or other powerful politicians that contravene formal budgeting rules are one of many examples.

A general benefit of institutions for growth and development is that they lower transaction costs, ensure that collective action dilemmas are solved and public goods are supplied. This works best when formal and informal institutions are complementary and worst when formal and informal institutions are competing and mutually subversive.

Inefficient institutions (and interactions of formal and informal institutions) can persist because they are linked to power structures and to distributional benefits. For example, preserving (wide) informal powers can yield high immediate benefits to a country’s president. Also, a poor institutional environment can create economic profits for some activities that would be lost if institutions are changed.

Box 9: Analyzing winners and losers of electricity sector reforms in India

Power sector reforms have been on the agenda for a long time in India; yet they have suffered from persistent gaps between political rhetoric in favor of reform and sector expansion, actual policies adopted, and implementation. The 2006 study by Sumir Lal seeks to understand this situation from a political economy perspective, paying particular attention to the issue of ‘winners’ and ‘losers’ from such reforms. Reducing subsidies to farmers for using energy to pump water is one of the key sticking points of these reforms.

As the analysis points out, the (numerous) poor as well as the (fewer) wealthy farmers could be potential winners of reforms. The poor would gain if access to electricity would be expanded (as currently few of them have access), while wealthier farmers could benefit from more reliable power supply. However, as the study points out, all farmers face a great deal of uncertainty: the poor, that higher tariffs would actually result in the reallocation of funds to allow better access, or to fund other services better, and the wealthy farmers are uncertain about whether more reliable supply would materialize. Furthermore, farmers face uncertainty across multiple issues and policy areas, including other inputs such as fertilizer and seeds.

Finally, the study finds that reforms in India have worked best if they have been gradual, and have involved some ambiguity, which allows politicians to devise early gains for some, use opportunities arising out of the fluidity of interest groups, engage in compromises while incrementally shifting the agenda, and so on. Thus, the pace and path of reforms had to respond to the more amorphous and complex situation, rather than being able to interact with clear-cut winners/reform supporters and losers/reform opponents.


terpart (e.g. a ministry of agriculture, or the national and sub-national health sector bureaucracy, or a national audit office). Thirdly, institutional mapping is valuable to identify potential levers of change. Institutional mapping involves a look at rules (especially formal rules as a first cut) and at organizations relevant to a particular issue, such as a sector, a policy and/or a broader development challenge (e.g. poverty reduction, dealing with environmental degradation, etc.). For institutional and stakeholder mapping, it is important to consider not only the relevant organizations and stakeholders (such as ministries, agencies, individual leaders, lobby groups, CSOs, etc.), but also the rules that govern their interactions.

Such rules include formal laws and regulations, established processes, and the like; as well as informal rules that are more derived from social norms and practices (see Box 8). In many client countries, formal laws and regulations play a very ambiguous role. On the one hand, laws can be significant, and may be frequently invoked. On the other hand, not all laws are enforced equally, or a particular law may be enforced partially or selectively only (e.g. tax laws). Frequently, the implementing regulations for a law to be actually effective are incomplete, or existing regulations may be little known—even within government agencies; or they are difficult to access, even if they are very important for citizens (such as regulations on how to register property).

Sector, policy, and project focused PGPE analysis can help to systematically analyze the web of rules and how they are actually applied in the current situation. It is important to understand the current governance arrangements
and what drives them, prior to mapping out what ‘better practice’ a country should adopt, and prescribing a potential change process.

**I.3.2. Stakeholder analysis**

Stakeholders come in many guises—stakeholders can be individuals or they can be specific groups (such as mid-level officials of a ministry, or business or farmers’ associations, political parties, etc.). Three main ways of categorizing stakeholders have become widely used—‘demand-side’ versus ‘supply-side’ actors/stakeholders, reform champions versus reform opponents, and ‘winners’, ‘neutrals/undecided’ and ‘losers’. Such categorizations can be useful as long as they do not lose sight of ambiguity and dynamics.

For example, MPs can be categorized as ‘demand side’ actors in some situations, but they can also be part of the supply side of policies and the supply of (good or bad) governance in general. Similarly, the categorization of certain stakeholders as ‘reform champions’ or ‘reform opponents’ often needs to be nuanced. For example, some stakeholders may favor a change of the status quo—but may nonetheless seek policy reforms that diverge from the preferred policy options proposed by WB task teams.

Furthermore, ‘reform champions’ often have multiple agendas and issues which they need to take into account—maintaining their own position and/or power bases, possibly addressing a range of development challenges (which may require horse-trading and compromising with others), having important personal interests or obligations, and so on. Also, some reform champions may be strong individual supporters of reform, but are poor at coalition-building (e.g. politicians heading small pro-reform parties) which can limit their effectiveness. Understanding reform champions, their needs, incentives, and constraints can be very important for establishing a relationship that really can bear fruit over time.

A specific sub-type of stakeholder analysis is the ‘Expected Utility Stakeholder Analysis’, which uses a special software program ‘Senturion’ to analyze data about stakeholders and their positions. Several World Bank teams have used it on a pilot basis in recent years (see Box 10). This is an interesting tool that can be powerful in certain situations—especially in order to drill down into how stakeholders will relate to a very specific policy issue or proposal, or where compromise may be found in the negotiations about a reform bill. Generally, the tool builds on pre-existing systematic qualitative analysis. If extensive information about stakeholders and their positions on an issue is available, it can be deployed for drilling down into specific questions and for illustrating likely processes and points of agreement relatively rapidly. A key issue to consider is the relatively high cost of using this tool due to the program license and specific training required for using the tool effectively. Especially for countries with larger programs it can be a worthwhile investment if the tool is then used to inform teams on a number of issues.

**I.4. RESOURCES, RENT DISTRIBUTION, POLITICAL STABILITY AND LEGITIMACY**

Understanding the political economy of rents, and how it affects growth, poverty reduction and reform processes in general, represents a critical part of problem-driven analysis. Economic rents emerge in a number of ways, and in turn significantly shape the incentive for actors.5 The

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5. The standard definition of economic rents refers to the difference between what a factor of production is paid and how much it would need to be paid to remain in its current use.
Box 10: Expected utility stakeholder analysis

Using a thorough data collection and recording process, the model translates the qualitative political economy knowledge of country and technical experts into a dynamic quantitative analysis. This approach can be very helpful in deepening PGPE analysis around specific issues in a rigorous way. Using sophisticated modeling techniques, the approach simulates the complex bargaining dynamics among a large number of stakeholders. Visual aids embedded in the modeling software transform raw data into easily understood patterns that are not readily apparent from the data alone; and can help to visualize whether reform coalitions are likely to exist or emerge, and what changes in strategy a task or country team might adopt in promoting the emergence of a coalition around a viable degree of reform.

The agent-based stakeholder model has been developed into a user-friendly IT application, known as Senturion.

Agent-based stakeholder analysis is carried out in five steps:

1. Framing the Question: The framing step involves articulating the overall objective of the political analysis problem and breaking it down into its component parts for detailed analysis.
2. Specifying the Issue: An issue, for the purposes of Senturion, is the continuum of options that stakeholders may support on a specific policy matter. This is specified in a linear manner from 0 to 100, either from the least politically difficult reform (0) to the most politically difficult (100), or in terms of two alternative poles of reform, with intermediate reform steps identified along the spectrum in either case. Issue specification is probably the most challenging aspect of applying the agent-based model, and will often draw on prior qualitative analysis. Taking time to specify the issue properly is also one of the model’s benefits, as it helps the team achieve clarity on the reform issue, desired outcomes, and key stakeholders.
3. Collecting Data: The data collection process involves interviewing individuals with a strong grasp of the country context, the stakeholder landscape, and/or the policy issue being analyzed. Interviews can be highly structured or broadly contextual, depending on the expert and the situation.
4. Analyzing the Basecase: The data described above are entered into the model, which then generates—using an algorithm that simulates bargaining dynamics—a picture of expected stakeholder interactions over time. This is the model’s “basecase” outcome, resulting in a graphical display of initial results which can be used to analyze whether stakeholders are expected to converge in support of a particular reform position, to what degree, and how quickly; and therefore what level of reform could be expected under the current dialogue and with what level of support.
5. Defining and Interpreting Alternative Scenarios: Based on the above analysis, the team runs simulations of strategies the Bank might be able to use to improve reform outcomes from its own point of view. This analytical exercise allows the team to test whether an altered Bank position could help achieve greater consensus in support of reform, or if the Bank could realistically exert leverage on a particular stakeholder to garner support for more extensive policy change. The model can thus provide a detailed illustration of the micro-politics surrounding the implementation of reforms, and the costs and rewards of alternative Bank strategies.

Source: Naazneen Barma, Public Sector Specialist, East Asia Pacific.

sources and allocation of rents and how these evolve and shift over time are crucial for understanding underlying political economy drivers, especially at the country level, and in particular ways at the sector and policy level. Economic rents can be derived from two main sources: those linked to control over natural resources and those derived from government regulation.

The latter type of rents are those that Anne Krueger has drawn attention to in her famous 1974 article, “The Political Economy of the Rent-Seeking Society.” The latter type of rents
can be adjusted through changing regulation, and in principle can be minimized—although there may be arguments for the deliberate creation of certain regulation-based rents, e.g. to provide incentives for innovation. A further form of rents are those associated with illicit activities—such as narcotics production and smuggling or human trafficking, which governments seek to limit.

Rents related to natural resources—such as minerals and oil, but also land and water—can be very important, and in contrast to purely regulatory rents, they cannot be eliminated. Furthermore, the size of these rents often lies to a considerable extent outside the control of local stakeholders, as with regard to fluctuating commodity prices. Good regulation is important to govern the allocation and management of these rents, but achieving this can be extremely challenging. In principle, globalization and increasing global populations mean that natural resources become increasingly scarce and valuable. Both growing scarcity and volatility of the value of natural resource endowments and associated rents can have a profound impact on the political economy and power relations within and across countries.

There are two competing arguments regarding rents: a more normative ‘good governance’ perspective generally advocates that regulatory rents should be reduced (or used for specific purposes only), while rents resulting from natural resources should be regulated in a way which maximizes (long-term) growth and poverty reduction. A different argument—made by Khan and others (e.g., Haber et al. 2003)—holds that the distribution of rents is an important pillar of political stability. External attempts to curtail or redistribute rents, or internal contest over the distribution of rents can result in political instability, and in the worst case can lead to violent conflict. By implication, attempts to change rents should be approached with caution especially in potentially or actually fragile states. On the flip-side stands the argument that major rents from bad regulation or a highly unfair distribution of rents from natural resources can lead to economic stagnation as well as to popular discontent—which ultimately can also pose threats to political stability.

Figuring out the nature and implication of rents and their dynamics over time can be very important for defining country and sector strategies. PGPE analysis can focus on diagnosing existing sources as well as mechanisms for allocating rents and the distribution’s relative stability. The mechanisms for deciding on allocations and the actual distribution of similar types of rents can vary widely across countries. For example, in some countries, rents from natural resources are mainly shared between external stakeholders and a few key power holders in country. In other countries, rents are distributed more widely to balance the political support of various groups and regions.

In terms of evidencing PGPE analysis, it is important to note that while it is crucial and usually possible to characterize rents and their distribution and dynamics in broad terms, it can be quite challenging to quantify the size of rents.
or their distribution in detail. For example, property rights over natural resources can be murky or difficult to trace, or there may be little public/verifiable information on who benefits how from regulatory rents. It can be useful to reflect up front what level of detail about rents and rent distribution needs to be known given the operational question that the PGPE analysis is seeking to address.


### I.5. PATRONAGE NETWORKS, CLIENTELISM, AND NEO-PATRIMONIALISM

The terms neo-patrimonialism, patronage or patronage networks, and clientelism have gained increasing currency in the analysis of the political economy of developing countries. In a nutshell, these terms are used to describe situations in which formal and informal institutions (strongly) diverge, and informal rules of the game are subversive of formal ones (see also Box 8 above on formal and informal institutions).

Patronage networks and clientelism are widely found in many countries with varying impacts on formal institutions. Neo-patrimonialism is the most extreme form of divergence between formal and informal institutions, in which formal institutions are largely reduced to ‘facades’ (see e.g. Rakner et al. 2004). Many countries with extensive patronage networks and clientelism, especially in Asia, have performed well with regard to growth and even poverty reduction; while the problem of such networks stunting development has been most evident in Africa. Thus, the actual behavior of such networks and their impact may depend significantly on wider sets of incentives. For example, in natural resource rich environments, patronage networks may have greater incentives to focus on predation, while in countries with few such resources and entrepreneurial opportunities, similar networks may behave rather differently.

In many settings, political parties as well as ethnic and/or regional groups form the organizational bases for patronage networks. If patronage networks are dominant at the society-wide level, access to public goods and services, as well as to economic opportunities depends on being part of such networks. Receiving a civil service job, timely access to a good doctor, the processing of applications for a business license, or being connected to the electricity grid can all be determined whether or not a person is part of a relevant network. At the same time, politicians and bureaucrats in highly patronage driven societies can be inundated with requests for direct, personal favors.

In other countries, patronage networks are most important for distributing rents—e.g. allocating lucrative plots of land in downtown locations or allocating major public procurement contracts. In such ‘intermediate’ situations, patronage networks are focused on rents, while formal institutions play a more effective role, and significant parts of service provision and other day-to-day interactions between citizens and the state are broadly governed by formal rules.

In neopatrimonial situations, patronage networks and the informal rules which they create and perpetuate largely undermine and hollow out existing formal institutions. The challenge is that neo-patrimonialism has a tendency to persist because formal institutions are weak and frequently fail to deliver public goods to citizen; i.e. it can constitute a ‘bad equilibrium’.⁹

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⁹. A key problem of the concept is that its boundaries have remained somewhat poorly defined, i.e. there are no hard and fast criteria for categorizing a country as ‘neo-patrimonial’.
The concepts of neo-patrimonialism and patron-client networks can be useful to capture the fact that many forms of poor governance are systematic, rather than limited to specific stakeholders or issues. This includes problems of pervasive corruption. However, governance and political economy analyses should focus on teasing out some of the specifics of these structures and their impacts—rather than just offering a very broad and perhaps superficial diagnostic that a country is ‘neo-patrimonial’ (see also Erdmann and Engle 2006).

Furthermore, even full-blown neo-patrimonial situations are not static, and change and policy reforms are possible even in such situations. Structural changes of society such as urbanization and the spread of education are forces that gradually change social expectations and interactions. However, in countries where informal institutions and practices are deeply subversive of formal rules, efforts at reform are likely to require particularly careful attention regarding unintended consequences, potential perversions of reform, the real incentives affecting the behavior of stakeholders, and so on.


I.6. SELECTED KEY CONCEPTS FROM INSTITUTIONAL AND POLITICAL GAME THEORY

Game theory has evolved in many guises across the social sciences since the 1940s. A few key ideas and concepts are briefly surveyed here, as they may be particularly useful for structuring the thinking about the political economy situations in client countries.

* Path dependency. Path dependency refers to the idea that what has happened earlier can have lasting effects on subsequent situations and the range of choices. For example, changing or creating agencies now can create path dependency in terms of the subsequent range of choices about the public administration’s structure. The nature of colonial legacies (e.g. Francophone versus Anglophone) created important ‘macro-level’ path dependencies in many countries. Importantly, however, as mentioned above, formal institutions tend to be weaker in developing countries than in developed ones, which inter alia makes sudden changes, i.e. ruptures in path dependency, more likely compared to more stable developed countries.

* Principal-agent relationships and accountability. The ‘principal-agent problem’ is the problem of motivating one party to act on behalf of another. At country level, the challenge is for citizens (as principals) to motivate politicians (as agents) to act in the public interest, rather than their own self-interest or the interest of a narrow group. Within the public administration, elected officials are principals, who need to motivate public servants to actually implement adopted policies and to provide services. The question is therefore, what tools principals have at their disposal to hold the respective agents to account. For such accountability to work, ensuring good information on the side of the principal is assumed to be important; while another important dimension is the power to act and to enforce accountability (on principal-agent relationships in service delivery see World Bank 2004: chapter 3—“The Framework for Service Provision”).

* Collective action challenges/dilemmas (and tragedies of the commons). The notion of collective action problems is based on the observation that large groups—such as the
poor, consumers, or owners of small businesses—are often surprisingly powerless, despite their large numbers. The concept of collective action challenges suggests that large groups often do not organize effectively to act in their shared interests. Smaller groups with high stakes have a higher likelihood of organizing effectively, potentially to the detriment of larger groups. A tragedy of the commons arises when a shared resource (such as open access grazing grounds or water sources) are overused, because each individual faces an incentive for overuse, unless those sharing the commons can effectively organize to manage it.

* Veto players and gatekeepers. The issue of veto players and veto points as well as of gatekeepers can be relevant for understanding policy processes. Legislative processes—and the ways in which they are formally defined as well as actually used—determine who can block policy initiatives and at what stages. When supporting policy reforms, it can be important to think ahead about potential veto players and veto points. Gatekeepers in turn are those who channel and select among multiple options. For example, ministries of finance are often important gatekeepers with regard to spending requests from line ministries. At the same time, how a ministry of finance actually performs this gatekeeping role can be very important—e.g. whether it selects spending proposals based on its merits for fostering development, or rather based on political patronage and power considerations.

* Selectorate theory. The selectorate theory focuses on the size of ‘selectorates’ (people in a polity with a voice in selecting leaders) and ‘winning coalitions’ (the portion of the selectorate sufficient to choose and sustain a leader in office) and the effects of these on the provision of public goods versus private benefits. Democratic systems are assumed to have the largest selectorates and winning coalitions, one-party autocracies may have large selectorates but have smaller winning coalitions, and in military juntas, selectorates and winning coalitions are the smallest. All polities are assumed to provide both public goods and private benefits, but the larger the winning coalition is, the more there is an incentive to provide public goods.

These are just five concepts out of a much wider range, which have been selected because they may be useful for framing particular problems or challenges encountered in client countries.

Annex 2: PGPE Analysis at the Country, Sector/Thematic, and Project Levels

This annex provides further detail on how GPE analysis can be approached at different levels—country, sector or theme, and project—as set out in Part Three of the main text.

II.1. ‘POLITICS IN ACTION’ AT THE COUNTRY LEVEL

The main value of country-level analysis is to ‘cover the ground’—i.e. summarize the country panorama. Country analysis is often done as a background paper (e.g. for the CGAC pilots) that accompanies analysis of more specific issues. Importantly, country-level GPE analysis should seek to bring out key political economy dynamics, rather than providing a static picture only. Exploring such dynamics includes a retrospective of country legacies and how they are shaping the current political and economic situation. While providing a broad overview, country-level analysis can be focused on specific questions or issues, including a first cut at how country-level dynamics affect sectors of particular interest. Some options for problem-driven analysis at the country level are set out below.

Across the whole range of clients, country-level analysis is valuable especially in the context of strategic planning, and where there is little prior GPE analysis. It is particularly crucial in settings where political stability is a concern, since this will often have profound effects across policy areas and sectors. Country analysis is also needed when major challenges arise, such as post-election violence and/or clamp-downs, which may require a review of the Bank’s portfolio and assistance modalities.

A vital role of country-level analysis is to define cross-cutting drivers and dynamics. Broadly, country-level analysis covers the following:

i. Foundational dimensions such as the role of religion, relationships between different (ethnic) groups, but also the role of external forces and the nature of the political regime which form an important backdrop against which development policies have to be understood.

ii. Historical factors, capturing in a focused way how these influence the current political and economic landscape of the country.1

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1. Countries may differ substantially in the degree of ‘path-dependency’, i.e. the degree to which the past has a clear imprint on the present. Many developing countries have experienced sharp departures, such as transitions to democracy and/or from socialism to market economies. However, understanding how the current situation has evolved over time, is an important element of grasping governance and political economy dynamics.
While legacies are not determining, a sense of how a governance and political economy situation has evolved is important as past events shape current relationships between stakeholders as well as the current institutional set up. Understanding legacies is essential to understanding country dynamics, and can highlight the roots of current issues, such as variation in terms of the willingness of reform across different sectors or the degree to which past instability or civil war informs citizens’ attitudes and expectations today.

iii. In countries that are affected by conflict or serious inter-ethnic/inter-regional tensions, it is essential to gain an understanding how the tensions have evolved over time, and to tease out key implications for World Bank programming (such as whether and how to operate in certain regions).

iv. A map of key institutional structures—including the constitutional system and actual functioning of checks and balances, as well as key features of the public sector and the state’s sources of revenue; including a macro-level discussion of the formal as well as the actual ‘rules of the game’ (e.g. the degree to which clientism pervades public life).2

v. The main stakeholders relevant for country-level analysis: key political and economic power-holders; as well as crucial groups such as political parties, business associations, unions, or religious groups (depending on country context and the focus of the analysis).


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**Box 11: South Sudan GAC for CAS background note**

A central strategic objective of the World Bank in Southern Sudan has been to help strengthen core public sector governance, including in areas such as PFM, civil service management, decentralization, and anti-corruption. Given the need to build these systems from the previous absence of an effective state, in the context of a continued politically complex environment, the country team engaged in an analysis of the deeper dynamics around the establishment of a public sector. The process also included an enhanced process of dialogue with government counterparts at the South Sudan and state level as to potential practical reform options.

The South Sudan Background Note (2008) addresses the key issue that the SPLM/A (Sudan Peoples Liberation Movement/Army) has not really yet transformed itself from a fighting force into a political movement with a capacity to assume government functions. Continued security risks—due to the fact that many groups in South Sudan remain armed—add to this challenge, and distract from development-focused policy making. Roughly half of South Sudan’s budget is devoted to security and defense expenditures. On the positive side, there is no imminent risk of a collapse of the Government of South Sudan, as stakeholders fear the consequences of a breakdown of SPLM unity, as for the time being people appear to accept the prioritizing of security over development, and as the international community fills some of the ‘development gaps’.

The challenge for the World Bank and other development partners is to provide the urgently needed support for impoverished and under-developed South Sudan, while managing the risk of contributing to uneven development among factions and tribes, and avoiding the emergence of excessive dependency. While challenging, the GAC for CAS analysis is considered important by the country team as it develops its strategic approach to South Sudan. It also highlighted the need for Bank staff to consider the prevalence of security concerns during transitional and post-conflict phases, such as currently existing in South Sudan.

Source: Authors and Motoky Hayakawa.
vi. An analysis of rents and how rents have evolved and shifted over time can be highly informative about the systemic nature of stakeholder interests, how they evolved, and how they are linked to wider structural forces (e.g. volatility in export markets, population trends, etc.).

The analytic lenses outlined in Annex 1 are all pertinent for country-level analysis. Box 12 provides a detailed set of questions for country-level analysis which were developed for the GAC for CAS pilots in FY2008, providing useful guidance as to which issues specifically to explore. Beyond such a mapping of macro-politi-

### Box 12: Country-level analytical questions developed for the GAC for CAS pilots

Taking the three priorities proposed by the country team as a starting point, the analysis should respond to the following seven questions. (Indicative page limits in parentheses.)

i. How does the country compare with others with respect to the provision of “good policies” generally and in the priority areas identified? Summarize the overall governance profile through the ‘Governance at a Glance’ tool. (3 pages)

ii. The credibility and legitimacy of government (vis-à-vis both elites and the broader society) is an integral aspect of governance: lack of credibility and legitimacy reduces the ability of either public or private actors to plan with a long-term horizon, and makes it more difficult to construct a durable coalition that favors the CAS priorities. Both credibility and legitimacy are underpinned by the allocation of resources and rents. Are agreements regarding rent extraction and distribution accepted by a critical mass of elite interests, stable and credible? That is, do beneficiaries of rent seeking arrangements (whether private investors or key political actors or social groups) have confidence that these arrangements will persist into the future? Is there similar confidence in the credibility of property rights? What is the basis of this confidence? (15 pages)

iii. One key aspect of governance relates to the incentives of politicians to pursue policies in the broad public interest. What aspects of the political environment augment or diminish the political incentives to pursue such policies (e.g., those described by the three CAS priorities?) (15 pages)

iv. Another key aspect of governance is the ability of the public administration to carry out policies in the broad public interest predictably and sustainably. What limitations does bureaucratic capacity impose on the ability of politicians to promise and to deliver on their promises regarding policies such as the three CAS priorities? Alternatively, what is the potential of the bureaucracy to implement CAS priorities “technocratically” and sustainably? (5 pages)

v. The pursuit of better governance generally and the three CAS priorities specifically could be extremely risky in countries in which social peace and state institutions are fragile and prone to dissolution from violence. What are the sources of such fragility in the country? What arrangements—economic and non-economic mechanisms—seem to be essential to assuring stability—for example, in mediating among deeply divided social groups in the society? What impact would the proposed priorities have on these mechanisms or social equilibria? (10 pages)

vi. The foregoing identified the governance and political economy obstacles and opportunities that affect policies like the three CAS priorities. What is their likely specific applicability to the CAS priorities? How might one address the three development priorities selected for the CAS in light of these obstacles and opportunities? (5 pages)

vii. Given the foregoing, are the specific development priorities identified by the country team the right ones? Are they the right set of things to pursue given the context? What additional ones are important to consider? (5 pages)

*Note: The full set of detailed sub-questions can be found at: http://connect.worldbank.org/units/prem/PD-GPEA/PGPE/default.aspx.*
cal features, country-level analysis may include a look at two aspects which often have cross-cutting relevance: electoral incentives, and the way in which policy processes operate (see below).

Especially if done as a self-standing piece, it can be useful if country-level analysis combines an overall picture with a focus around particular problem(s) or issues. There are various options of bringing a problem-driven perspective to country-level analysis and of giving such analysis a clear focus:

i. Summarizing available governance indicators and comparing them to regional and/or income-group averages. Such a mapping of indicators is useful to stake out up front how a country’s overall governance compares to peer group(s). It can also map the quality of governance against the growth and poverty reduction performance. Again, such an up-front assessment helps to focus the subsequent analysis of governance arrangements and of political economy drivers of these.

ii. Providing a first cut of sectors that are of key interest; and exploring what country-level dynamics imply for those sectors—for example, strong rural-urban divisions may have important implications for agricultural policies, or ethnic divisions may have crucial implications for social protection. This can help to guide subsequent analysis, and to explore how country-level dynamics appear to affect the more specific political economy dynamics of sectors. E.g., in some countries most sectors may be performing poorly across the board, while in other countries, there is much more variation, some of which may originate in how country-level drivers come to bear on different sectors.

iii. Setting out key development challenges facing a country (e.g. improving the management of HIV/AIDS; managing rapid urbanization) and providing a broad diagnosis whether country-level political economy conditions and drivers are conducive to addressing such challenges. A brief summary of key development challenges and country-wide conditions for addressing them can help to focus subsequent PGPE analysis of specific issues.

Note that self-standing country-level analysis necessarily has limits. Where in-depth analysis of a theme or sector is being sought to inform a CAS or a DPL, it is essential to complement country-level work with GPE analysis at sector and/or project level. Only in selected cases—such as country-level analysis done in reaction to crisis and with the purpose of informing reprogramming—will country-level GPE analysis be directly operationally relevant. That said, it often has major effects on how teams think about country context, and hence it can have significant indirect relevance. Also, it is highly valuable in establishing a context for more issue specific GPE analysis.

For an increasing number of countries, some form of country-level analysis has already been conducted. Where ample material is available,
it may suffice to do country-level analysis as a brief summary combined with an update on most recent events (e.g. new election, major new policy initiatives; corruption scandals, etc.) and their implications. In many cases it is still highly valuable to organize, analyze, and summarize existing material in a way that makes it accessible and pertinent for country teams and their understanding of the political economy context of the country. Where no relevant country-level analysis has been done, country-level analysis will require more extensive work.6

Country-level analysis is the only one of the three levels which can potentially be done purely as a desk-based exercise, especially if ample material exists. However, for a more intense interaction with country teams to define the issues to be addressed, and also to get a high-quality update of current events, experience shows that a mission adds significant value (see Part Five, sections 5.1 and 5.2).

II.1.1. Special module 1: Analyzing electoral incentives and their potential importance for policy and public investment choices

While the World Bank has no involvement in reforming electoral rules, electoral incentives often exert considerable influence on how policies are shaped as well as on public investment choices, and hence this has become a specific theme which is beginning to be explored as a module or section of country-level analysis. Understanding these incentives from a diagnostic perspective can be of considerable benefit to Bank teams working on policy and public sector reforms.7

There are four key dimensions: (i) electoral rules and the incentives they create, (ii) the way in which electoral promises are made, (iii) the degree of information available to voters, and (iv) the crucial factors shaping voter preferences.8

i. The first dimension directly affects how candidates and MPs behave. For example, majoritarian electoral systems—in which candidates are elected from one particular locality—often create incentives for localized public spending. Electoral rules can also affect the degree of concentration versus diffusion of power. While some electoral rules are clearly flawed, no set of rules is automatically superior to another (see Cox and McCubbins 2001; Fukuyama 2007).9

ii. In some settings, a discussion of policies is almost absent from election campaigns, which become almost entirely focused on personalities and on clientelistic promises, including promises of ‘bringing’ roads or school buildings, or the like.10 Alternatively, some parties and politicians make highly populist policy promises—especially if they need to make a nation-wide rather than local appeal in order to win elections. Generally, few developing countries have political parties that have a well-defined

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6. If affordable, country visits are almost always valuable as they establish a closer interaction between the PGPE analyst and the country team; and because they are invaluable for capturing most recent trends.
7. Analysis can focus on presidential or parliamentary elections or both, depending on country circumstances.
8. Frequently, problems rest with secondary rules, such as the fact that in a majoritarian, localized system, politicians are not required to actually reside in the district they are being elected from, undermining the localized accountability which the system as such implies.
9. Also, in countries in which identity politics are highly important (i.e. where people tend to vote along ethnic, religious or linguistic lines), voters may be more distracted from voting about policy issues, than in places that are more homogenous in terms of people’s identities.
programmatic base (see Randall 2007). This implies that their policy agendas are often highly opportunistic and changeable.

iii. The amount and quality of information that voters have available are driven by general country characteristics, such as the level of education and urbanization, the political regime, as well as by more specific conditions such as budget transparency, the existence of M&E systems, and media freedom and (investigative) capacity.

iv. Regarding the fourth dimension, voters may be motivated by different preferences—not only their own economic self-interests, but also regional or group loyalties. In many settings, voters prefer well-known individuals, which may include sportsmen or film stars.

Overall, understanding electoral incentives can be highly valuable in understanding what kinds of policies are politically attractive (or unattractive), the politics of allocating public investments, as well as the overall nature of accountability between society and political elites and the effectiveness of demands for good governance and development-oriented policies. In decentralized settings, and analysis of electoral incentives can also contribute to understanding more local accountability relationships.

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**Box 13: Electoral incentives in Benin and the lack of growth-focused policies**

Over the past two decades, many low income countries have begun to establish democratic systems, and have been holding more or less free elections. The puzzle is, however, that even though democratization in principle gives citizens the ability to choose their government, in many cases this has not translated into governments delivering policies aimed at growth, poverty reduction, and overall development—which would benefit citizens at large (see also Keefer and Khemani 2005).

The Benin CEM analyzed electoral incentives in order to understand why this link has been weak. The analysis highlights that in a poor, young democracy such as Benin, citizens often have limited knowledge and information on what government policy can do, how it affects economic growth, and how economic growth affects their own welfare. In turn, politicians who perceive low political payoffs to pursuing growth-accelerating reforms are less likely to undertake them.

The competition for votes is focused around clientelism rather than policy promises. Political competitors are unable to make credible pre-electoral promises regarding growth-related policies, as they lack the ability to implement such policies even if elected.

The electoral system in Benin is proportional (i.e. based on party lists), divided into a number of election districts (rather than one nation-wide list). The system encourages a proliferation of parties; while the fractionalization of parliament means that individual or small groups of MPs have little chance of promoting any larger-scale policies. The focus is therefore on personal popularity and trying to provide some direct benefit to election districts.

In public opinion surveys, 95 percent of respondents said that politicians rarely or never keep their election promises (compared to an average of 82 percent for all African countries). Elected MPs are expected to deliver individualized benefits, and usually receive a slew of requests to contribute to marriages, naming ceremonies, burials, education fees and health bills, while voters do not expect them necessarily to provide public goods.

Furthermore, even though the press is relatively free, it is difficult for Beninois to obtain relevant information on government policies regarding growth and government service delivery; as few are able to afford newspapers, and as radio stations often provide little information on policy issues. Educational levels in Benin continue to be low. Consequently, better education and information could be a key to building greater demand around development-promoting policies.

*Source: World Bank 2008a, Chapter 2.*
II.1.2. Special module 2: Analyzing policy processes

Analyzing policy processes can be fruitful for country-level as well as for thematic or sector-focused GPE. Some key generic qualities of policies and policy processes are: public-regardedness (the degree to which policy making is in the general public interest, rather than the interest of specific individuals or groups), policy stability and adaptability, policy coherence and coordination across policy areas, and the quality of implementation and enforcement (see IADB 2006: 17). In general, policy stability and predictability is important, and policies should not be changed randomly, e.g. driven by changes in the ‘political weather’. At the same time, country systems need to be able to produce or adapt policies when needed—because policy gaps become apparent, existing policies fail, or because external circumstances change. Among the drivers that are decisive for the quality of policies are electoral incentives (discussed above), the formal constitutional set-up as well as more specific rules determining the role of key players in the executive and legislature and the structure of veto-points, as well as the nature of political parties and the political culture more broadly. Last but not least, aid dependency and the role of donors and international agencies in shaping policies can also be an important factor.

Analyzing policy-making processes can clarify the formal and de facto mechanisms for drafting and adopting policies. This can be done in a more generic form (e.g. teasing out general mechanisms and patterns), or through process tracing of one or several specific policies that are of particular interest (see also World Bank 2007c). In a number of instances, World Bank teams have been surprised by policy decisions; or conversely by failures of policies to be adopted even though they had been agreed and apparently supported by governments. Lack of implementation subsequently to adopting policies is also a frequent problem in many countries. Analyzing policy processes and what drives them can help to reduce surprises. Such analysis may enable teams to tailor their policy dialogue and

Box 14: Analyzing policy-making processes in Latin America

The IADB has undertaken a major research effort to understand public policy making and its drivers across the region. Key findings are published in IADB (2006) and in Stein and Tommasi (2008). One example is an analysis of the policy making process in Paraguay. In Paraguay, most policies are initiated by the executive, and some by the legislature. There appears to be also a division in policy content: the executive tends to dominate policy proposals with nation-wide scope, while the legislature initiates more bills targeted at particular localities, but also at the private sector. The share of bills passed compared to bills introduced declined from the early 1990s to the early 2000s. The analysis also explores whether bills are ‘particularistic’ i.e. benefiting certain groups (‘pork-barrel’) or non-particularistic. Particularistic bills have generally been adopted more easily, and have also faced fewer problems during implementation, while non-particularistic policies have stalled more frequently during adoption or implementation. Parliament has become relatively fragmented over time, and as a consequence has often acted as a veto-player, blocking important (non-particularistic) policies such as reforms in the telecommunications sector, social security, the health system, the civil service, and financial sector regulation. The fact that particularistic policies are less controversial and more easily passed means that the public-regardedness of policy making has suffered.

advice more effectively, in terms of timing, interlocutors, as well as the type of arguments and approaches (e.g. moving beyond a predominantly technical approach which can only reach certain audiences). Importantly, in each country there are general characteristics of policy processes (such as the predominance of the president in initiating policies), as well as features which are specific to various policy areas due to the fact that different configurations of stakeholders and interests are concerned, depending on the policy area (IADB 2006: 21).

There are different elements of analyzing policy processes: one is to map the existing formal mechanisms and how they are used de facto—e.g. which individuals or group can submit policy proposals, what are the prescribed stages for discussing policies (in cabinet, in parliament), and to what degree and how does the public or interested groups such as the business community need to be consulted. Regarding implementation, it may be possible to track whether key policies—such as taxation, trade policies, etc.—tend to be universally implemented and enforced, including whether implementing regulations tend to be in place, whether policies are actually budgeted for (including funding for implementing institutions) and so on. For specific policies it can be useful to establish how they were proposed, discussed, adopted, and subsequently implemented. Minutes of parliamentary discussions, as well as interviews with stakeholders who participated in the process, can bring to light how support for a policy emerged, or even why certain provisions were included or omitted.

II.2 SECTOR-FOCUSED AND THEMATIC PROBLEM-DRIVEN GPE ANALYSIS

This section discusses sector-focused and thematic GPE analysis. This level is highly pertinent for Bank policy and lending operations. First, the section considers sector-focused GPE analysis, and addresses specifically GPE analysis for public sector (or ‘core governance’) reforms, and analysis for service delivery sectors more broadly. Section II.2.2 then turns to thematic GPE analysis. For example, at this level, GPE analysis may focus on thematic questions of poverty reduction, growth issues, natural resource management, or pollution and climate change adaptation.

II.2.1 Sector-focused PGPE analysis

Sector operations are at the heart of the World Bank’s work. However, sector policy dialogue and sector operations have repeatedly run into difficulties because of a lack of thorough understanding of the political economy environment. Problem-driven GPE analysis upstream of sector operations and/or during their implementation can make important contributions to better design and implementation management.

This section aims to provide some general principles of how to approach sector-focused GPE analysis. Some tools for assessing governance and corruption at sector level are already available (e.g. PETS for expenditure tracking in health and education, and PEFA for PFM). However, most of these tools do not drill down

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11. See for example: http://go.worldbank.org/HSQUS 4IV520 (PETS—WB intranet only), www.pefa.org (PEFA), http://go.worldbank.org/VZ476DL7P0 (Improving governance in the electricity sector). Existing governance surveys and other sector-focused governance diagnostics are a valuable input to GPE analysis, as they should provide key information for diagnostic layer 2 (existing governance arrangements). To date, detailed governance sector diagnostics have only been carried out for a small number of pilots, but the rolling out of GAC activities should increase such applications.
to the political economy drivers. Where such assessments are available, they can be very helpful in providing a good understanding of the first and especially the second diagnostic layer (governance arrangements) as set out in part 1, while problem-driven GPE analysis as described here can then be used to delve more directly into addressing underlying political economy drivers.

This section first discusses sector reforms focused on ‘core governance’—i.e. public sector reforms—that are at the heart of overall governance in a country. It then briefly sets out some key issues for GPE analysis for other types of sectors. It is expected that more specific guidance will emerge over the course of FY09–10 tailored to the diverse range of sectors.

II.2.1.1. Problem-driven GPE diagnostics for core governance reforms

As is the case for other areas, public sector reforms have predominantly been pursued through (exclusively) technical approaches. For the World Bank’s mission, the most important core governance areas are public financial management, the civil/public service, anti-corruption, and the judicial system. Decentralization can be part of core governance reforms depending on country circumstances. While many operational staff implementing and supervising public sector projects are broadly aware of political economy issues, this mostly remains ‘tacit knowledge’. While still valuable, it means that there is little explicit discussion of political economy factors and usually little effort to define how these affect operations and how they might be addressed.

IEG recently evaluated the effectiveness of World Bank support for public sector reforms (IEG 2008). The evaluation concludes that while there are many areas of success, a significant number of interventions have not brought expected results. Furthermore, the report argues that largely leaving political economy factors unaddressed is one of the key reasons why development impact has not been more consistent (IEG 2008: 73–74).

Crucially, the political economy of public sector reforms tends to be especially closely connected to macro- or country-level political economy issues. At the same time, public sector reforms also have ‘internal’ political economy dynamics (which are sometimes referred to as the ‘micro-political economy’ of public sector reforms) (see Figure 5).

In order to get a good grasp of possible entry points, strategies and opportunities for reform, it is important understand with some precision how macro-level political economy factors interact with those at the micro level. For example, civil service reforms are closely linked to how the political layer of the state operates, such as the balance between patronage and clientelism versus a performance orientation, or the ability of citizens to voice demand for better services. At the ‘micro-political’ level, there are often specific political economy dynamics, for example around the roles of civil service commissions, or concerning the functional re-ordering of departments. An important ‘connecting point’ is the organizations, institutions, and incentives linking the country-level political economy with the different areas of public sector reforms. For PFM, for example, ministries of finance are important organizational stakeholders. In contrast, there is no equivalent stakeholder in most countries for civil service reforms. The relative political clout of ministries of finance can allow min-

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12. Other development partners include democratization and human rights as part of their core governance agenda, but these are not areas that the Bank actively engages or has a comparative advantage in.
istry officials to pursue certain technical reforms, even if these reduce rent-seeking opportunities for other stakeholders. At the same time, even ministries of finance may often not have the clout to overhaul procurement, or to entirely re-design budget processes.

Some teams have started to pilot GPE-type analysis for public sector reform projects, and further work is being planned by PRMPS as well as PREM regional units to fill this gap. Box 15 reflects some of the early examples.

II.2.1.2. Problem-driven GPE analysis for service delivery sectors

Sector reforms—from social sectors, to agriculture, to electricity, roads, and water—are crucial to achieving poverty reduction and growth. Similar as for public sector reforms, evaluations of World Bank operations have pointed to the need to take the political economy context of reforms into account more explicitly in order to improve development effectiveness (see IEG 2006). Through the PSIA approach, pilot work has been done, especially on the political economy of reform in agriculture and in water supply and sanitation (World Bank 2008b). Problem-driven GPE analysis of sectors has also been piloted in the context of CGAC and sector GAC processes, e.g. in Mali, Zambia, and Lebanon, with a focus on infrastructure sectors, and especially energy.

sector-focused GPE analysis may be done as part of a CAS process, motivated by an experi-

13. E.g. PRMPS has commenced a series of pilots on the capabilities of Ministries of Finance, including an assessment of how this is impacted by political economy factors.
Box 15: Governance and political economy analysis informing public sector reform operations—Moldova and Afghanistan

*Moldova* initiated an ambitious Public Administration reform in 2005. Key motivations were the need to improve government policy making and administrative capacity more broadly and to facilitate closer integration with the EU.

The four explicit goals were: (i) a significant reduction of ‘redundant’ personnel at the central level, (ii) subsequent raise in salaries to competitive levels, (iii) elimination of redundant institutions that perform overlapping and outdated functions, and (iv) improvement of capacity to implement government strategic objectives. The program has been supported through a donor trust fund. Milestones of the reform were mapped out in an overall action plan, complemented by annual action plans.

However, actual reform progress was limited. A governance and political economy analysis helped to explain the key reasons for this. One, the mix of trying to achieve qualitative reforms and of pursuing a significant downsizing of the civil service prevented the emergence of buy-in among ministries and agencies. The president ultimately also blocked important components of the reform, because these would have reduced his direct influence over personnel decisions. Country-level analysis also pointed to the fact that those social groups which would most likely demand greater state effectiveness and accountability are weakened due to very high rates of labor migration of the working-age population. Demand from NGOs on this issue has been rather weak.

Some partial reform has been possible nonetheless, including the adoption of a new Civil Service Law. The EU continues to be a driver of reform, as closer approximation is a political goal, and since at the practical level the EU is promising significantly increased budget support if the public financial management aspects of the public administration can be improved.

*Afghanistan.* A brief note on the Political Context of Public Administration Reform in Afghanistan was produced in 2006 by a prominent political scientist. The note reaches back into the historical evolution of a public service in Afghanistan, including the history of earlier external interventions. Crucially, the note shows that the international community (led by the UN) attempted to create a small, meritocratic core civil service at the outset of state (re-)building in 2001. However, these ideas were not accepted by the various factions—all of which were keen to ensure that they could appoint loyal members of their factions; as well as to maintain full discretion in appointing civil servants (rather than giving a prominent role in such decisions to a civil service commission). Limited employment opportunities outside the civil service, and the fact that former public servants—a number of cohorts of which had been created by the changing regimes—in principle all received the right to return to their positions compounded the problems. However, compared to some other post-conflict countries, the size of the civil service has still remained limited, due to a crucial gate-keeping role on the wage bill exerted by the MOF.

In 2003, an Independent Administrative Reform and Civil Service Commission (IARCSC) was created, and a civil service commission was set up under its guidance. Initially, the IARCSC focused on a program to establish centers of excellence within ministries, with the idea that most valuable officials would be transferred to Priority Reform and Restructuring (PRR) units and receive additional salaries; and that over time ministries would be slimmed down. Success of this approach has been mixed. Some ministries have begun to pursue greater results orientation through contracting with NGOs (e.g. in the health sector). The PRR was subsequently phased out, and attention shifted to the reform of ministries overall.

The World Bank has been engaged in Public Administration Reform both on the PFM and the Civil Service side in Afghanistan since 2002. The projects have continuously been informed by a substantial body of AAA. The governance and political economy analysis in particular has made important contributions to striking the balance between seeking to re-build a modern public administration and being realistic about the country context. This has included defining the overall strategic approach, and focusing on specific entry points.

Source: Authors and Jana Kunicova (Moldova) and Ranjana Mukherjee (Afghanistan).
ence of only partially successful or unsuccessful sector reforms in the past, and/or as part of the process of preparing sector operations. As mentioned above, sector-focused GPE analysis can be done as a package together with country-level analysis (e.g. as was done in FY08/09 for Zambia and Lebanon). In the same vein as for the other levels discussed here, problem-driven GPE analysis for sectors should seek to map out challenges or vulnerabilities, governance and institutional arrangements, and based on these drill down into the political economy drivers.

A sectoral value chain approach (SVCA) can be helpful for disaggregating a sector and defining what aspects are most important to analyze (see Figure 6). For example, the power sector comprises the overall policy and enabling environment, planning, budgeting and financing of particular projects, followed by their tendering and procurement and subsequent construction, system-wide service delivery, operations and maintenance, and the ability to achieve expansion and quality improvements. The education sector is composed of the different levels of education (primary, secondary, tertiary), the financing of the sector, staffing and teacher training, actual delivery of teaching on the ground (often involving local governments), text-book provision, the regulation and supervision of exams, and so on. The capacity and commitment of governments to develop and enforce effective regulation on the one hand and the ability of citizens to hold service providers to account either via long routes or short routes of accountability on the other hand cut across all these links of a sector value chain.

In many cases, the problem which GPE analysis is being asked to address is already set out in ongoing sector analysis. However, it may also be the case that the problem (such as poorly progressing sector reforms) is not clearly set out in any written document. Also, GPE analysis itself may bring some ‘neglected’ vulnerabilities to the fore, such as weak accountability mechanisms or specific rent-seeking activities, which may have knock-on effects, for example, on poor grid maintenance or creating incentive problems in the management of schools. A first step is therefore to set out and describe the challenge that is being addressed.

For the governance and political economy layers of the analysis, the task is to tease out the governance arrangements and underlying political economy drivers in the sector and, respectively, the selected aspects of it. Firstly, this involves mapping out the institutional and governance arrangements relevant for the selected aspects and the formal rules and de facto behavior that shape sector policies and sector management. Importantly, problem-driven GPE analysis at this level should consider weaknesses of ‘commission’ as well as of ‘omission’. A

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14. The idea of such sectoral chains draws on Campos and Pradhan (eds.) (2007).
15. The long route refers to the ability of citizens to demand accountability via voicing demands to politicians and policy makers. The short route refers to citizens’ ability to hold frontline service providers directly to account. See World Bank (2004): chapter 3.
16. Some governance diagnostic work may already exist that can be utilized.
sector may be affected by corruption (a ‘commission’ weakness, which many governance diagnostics focus on), but it may also suffer from a failure of the public sector to take action (an ‘omission’ weaknesses). For example, health care may be poor not only because existing government programs are affected by corruption, but also because the government is unable to muster a more concerted effort, and/or is failing to provide better infrastructure which would facilitate better access to health care.17

Secondly, identifying stakeholders and their interests is crucial (see Annex 1). However, categorizations of ‘winners’ and ‘losers’, or ‘reform champions’, ‘undecided’, and ‘opponents’ need to be done with care and conscious of the fact that positions can shift, and that stakeholders often have interests that cut across several sectors or issue areas. For example, business associations may have stakes in tax policy as well as fuel subsidies; while farmers may worry about water/irrigation policies, as well as health-care and

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17. This does not imply that governments would be expected to be the sole or main provider of all these services; however, even if private or public-private provision is an option, this often requires some effective government action in order to materialize.
roads. Assessing political economy drivers includes the question whether there are significant rents or rent-seeking opportunities and how these would be affected by proposed reforms.

Furthermore, historical legacies and experience of previous reforms and potentially their failure can influence the perceptions and expectations of stakeholders, and are therefore potentially worth exploring. Tracing particular sector policy decisions (or proposed decisions that failed) can be helpful for gaining an understanding of how stakeholders and institutions interact, both ‘horizontally’ within the sector and vertically with wider country-level institutions such as parliament and various levels of the executive.

As set out in Part One, the aim of PGPE analysis is to define feasible interventions—and this is particularly relevant for sector-level analy-

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**Box 17: Examples of PGPE for service delivery sectors—transport in Bangladesh, electricity in Lebanon**

**Bangladesh**
The transport sector is a major sector of the Bangladesh country program. However, there are major concerns that the sector is affected by corruption and rent-seeking interests, especially related to road construction. An *Operational Risk Assessment of Roads and Highways Investments* was carried out in FY2007. Beyond diagnosing the significant extent of corruption in the sector, the assessment drilled down into key political economy drivers—which included a political monopoly of road expenditure decisions, and an established market for public office in areas that are lucrative for rent-seeking. The sector analysis could also draw on an IGR, which had been undertaken a few years earlier, that set out broad country-level governance and political economy issues.

The operational risk assessment recommended that simply putting more controls in place would be insufficient, as they would either be broken/circumvented, or just be used to shift rents from one group to another. The recommendation was therefore to combine support to relevant government departments with a strengthening of public participation in road-sector decision making, and a public information campaign to raise awareness about proposed reforms and issues at stake, and strengthening the capacity and visibility of key oversight bodies.

**Lebanon**
The electricity sector in Lebanon has been plagued by problems of high inefficiency, rising numbers of brown-outs and black-outs, and being a growing fiscal drain due to low tariffs and rising subsidies for the state-owned electricity company. Despite the rising fiscal cost and increasing discontent of consumers with poor services, successive governments have not taken action to address the problem.

As the sector-focused analysis reveals, in addition to the corruption and rent-seeking problems which are typical in many countries, an added dimension in Lebanon is the fact that different groups and factions in the country have each sought to secure control over parts of the power supply, during acute conflict as well as more peaceful periods (local elite capture).

To date, most stakeholders who have some effective voice have jockeyed for privileged access to the subsidized energy, while ensuring themselves with back-up generators against outages. These include capital city electricity consumers, as well as the main industrial groups. Thus, there has been little demand for sector reforms.

The assessment suggests that the Bank’s preferred ‘first best’ solution, unbundling and privatization of the state-owned electricity company (which has already been stipulated in a law which has remained unimplemented for the past six years) may not be feasible. Instead, the proposition is to work on building a broader demand coalition for reforms, focusing on incremental steps such as improving metering to reduce non-technical losses, and possibly to tackle reforms in selected regions first, rather than seeking overall changes at the national level.

There has often been a tendency to espouse solutions in policy and lending operations and in sector policy dialogue that do not take into account what is feasible given political economy and institutional conditions. As set out in Part Two, sector-level GPE analysis should feed into a process of deciding on appropriate operational interventions. This includes a consideration whether to primarily select what interventions would be feasible given the existing reform space, or whether it is appropriate and feasible to pursue a more proactive strategy of seeking to expand the existing reform space.

II.2.2. Thematic problem-driven GPE analysis

In a number of situations, country teams may be looking for GPE analysis around certain themes or issues. The focus of thematic analysis is broader than in the case of a single sector and the analysis would usually cut across several sectors. A team may be concerned about a series of policy reforms around an issue (such as the political economy of poverty reduction), or it may be looking more for a background piece.

Themes that have been explored through pilot GPE analysis include:

- Managing natural resources/the risk of a resource curse
- Complementing growth analysis with problem-driven GPE analysis, notably around binding constraints to growth and defining ‘feasible’ reforms to reduce constraints
- The challenges of addressing persistent poverty effectively.

The basic principles of GPE analysis can be applied to each of these themes or issues. Following the three diagnostic layers, the work can start by defining the vulnerabilities or problems, looking at the governance arrangements and policies related to the issue (which will often span several sectors or levels of government), and then seeking to capture the underlying political economy drivers. Thematic analysis is perhaps the most challenging type of problem-driven GPE analysis, since on the one hand it requires more specific evidence than overall country-level diagnostics and pertinent information may be less readily available, while on the other hand it does not offer the benefit of narrowing to a specific sector or policy question, including having a rather clearly defined set of stakeholders and institutions concerned. Nonetheless, some good and valuable examples of such work are emerging, as well as specific resources for specific areas of engagement (see below). As set out in the Introduction, this good practice framework does not seek to provide detailed guidance on problem-driven GPE for specific themes. Frameworks for specific themes and issues may emerge over time, as is already evident for the theme of natural resource management and for political economy for growth diagnostics.

II.2.2.1. Governance and political economy analysis for growth analysis

The importance of economic growth for sustained poverty reduction has gained increased prominence among development partners over the past few years. The growth policy dialogue of the World Bank is often focused on analysis conducted as part of country economic memo-

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18. NRM is defined here as a theme rather than a sector, because it comprises not only mining as such, but also specific revenue and expenditure management challenges, environmental protection, and so on. The boundaries between a sector and a thematic analysis are somewhat open.
randa (CEM). Applied work in the past few years has focused on sharpening the prioritization of key constraints to growth. For example, the Hausman-Rodrik-Velasco (HRV) approach to growth diagnostics sets out a decision tree that highlights particular types of constraints. Although there are other methods of growth diagnostics, the HRV approach has increasingly been applied as part of the World Bank’s CEMs. This ideally yields a set of discreet types of growth constraint problems, ranging from government failures (including corruption, lack of rule of law, poor taxation), to infrastructure, human capital, or financial sector constraints. These constraints can impinge largely at the country level, or have regional dimensions (including when countries confront poor/landlocked geography).

Given a range of possible binding constraints to growth, GPE analysis can useful complement growth analysis to help explain the underlying political economy drivers of these constraints. For an approach to applying GPE to growth analysis, notably for the case of infrastructure in Zambia see Fritz (2008). A number of recent CEMs, including in Benin and Ghana, have already begun to pay more specific attention of political economy issues (see Badkoubei and Kaiser 2009). Such political economy analysis can be catered to particular areas of public service delivery (Keefer and Khemani 2005) and of financial sector development (Keefer 2007).


II.2.2. Governance and Political Economy Analysis for Resource-led Development

The development of settings rich in natural resources (oil, gas, mining, forestry and fisheries) continues to present a significant challenge. Disappointing historical performance has led a number of observers to characterize the resource wealth as a curse rather than blessing. The EI for Development approach (or EITI++) has emphasized that resource rich countries need to manage all parts of the value chain, from establishing contracts for mining, to how resources are managed, to how they are spent (e.g., including public investment management) (see Figure 7). Systematic GPE analysis can provide

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**Figure 7: Sector value chain for natural resource management**

- **Non-renewable Resources**
- **EITI**
- **Sustainable Development**

- **Award of Contracts and Licenses**
- **Regulation and Monitoring of Operations**
- **Collection of Taxes and Royalties**
- **Revenue Distribution and Management**
- **Implementation of Sustainable Development Policies and Projects**
implications of how particular segments of the EI value chain could be improved.

The political economy literature has also recognized that natural resource rents can fundamentally affect the nature of the state-society relationship. In natural resource settings, this may also call for particular political imperatives for strengthening non-resource based taxation as a way of enhancing accountability. Consequently, from a structural perspective (see Annex 1), the presence of significant natural resources can matter significantly for the overall macro and ‘micro’ political economy of a country.


Frequently, thematic GPE analysis will feed into several processes, including operations in ways very similar to the case of sector-focused analysis. For example, thematic GPE analysis focused on the overall challenges of natural resource management may come to inform a mining sector operation, as well as potentially operations on PFM. In the case of thematic analysis focused on GPE dimensions of constraints to growth, results may feed into the overall policy dialogue on growth, as well as into operations related to specific constraints to growth such as investment lending to improve roads and railroads. Other potential themes are managing environmental resources and risks/adjusting to climate change, managing food security risks, and so on.

### II.3. PROBLEM-DRIVEN GPE FOR SPECIFIC PROJECTS OR SINGLE POLICY DECISIONS

Teams may seek to understand governance and political economy issues directly related to a specific project or a single policy decision. This can be done as an extension of sector-level analysis and/or it can take the form of quick turn-around notes that complement other types of analysis done by task teams during project preparation or supervision. For investment projects and TA, key questions for GPE analysis may be whom to work with, to understand the incentives of stakeholders better, as well as to assess whether the circle of stakeholder a project engages with should be broadened, for example to include demand-side actors, and how this could best be done. GPE analysis also contributes to a more thorough understanding of the institutional landscape that a project interacts with—be it the structure of an urban government, or a specific government agency, or SOE and its regulators and so on. For specific policy decisions that Bank teams engage with in the context of policy lending, targeted GPE analysis offers an opportunity to assess feasibility, as well as to explore potential unintended consequences.

In some sense, GPE analysis at this level is ideal, because it allows a clear focus and the exploration of a very specific set of institutions, incentives, stakeholders and interests. For example, some stakeholder modeling work has been done exploring very specifically what level of competencies a proposed civil service commission might receive in a country, given the varying positions of different stakeholders, and seeking to establish a possible compromise point. However, an analysis that is exclusively focused at the micro-level will clearly also have limitations, e.g. in respect to understanding how the particular issue of concern is linked to wider country-level dynamics.

As for levels one and two, PGPE for specific operations can follow the basic framework set out in Part One and use the approaches discussed in the annex. Here, we just point to a few specific issues to consider:
II.4. SUMMARY: LEVELS OF ANALYSIS

This section has spelled out how problem-driven GPE analysis can be applied to different levels: the country level, the sector-focused or thematic level, and the project or individual policy level. In many cases, teams have undertaken GPE analysis that straddles more than one of these levels. This allows combining an analysis of the country-level ‘big picture’ with specific analysis more directly focused on questions linked to Bank strategies and operations. This has for example been the route that the CGAC GPE pilots in Zambia, Mongolia, and Mali have taken (as reflected in the arrow on the right hand in Figure 3).

It is important to recognize that the nature of the benefit varies across levels. That is, the benefits of country-level analysis are different from those that can be derived from a sector or project-level use of problem-driven GPE analysis. Furthermore, each level presents somewhat different challenges of doing GPE analysis. The intention of this section has been to draw attention to the need to be aware of different levels and hence different options that task teams may choose to pursue, to provide some broad guidance and ideas, as well as to reflect some key existing experiences for each level.

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**References**


Why is governance and political economy analysis important? Increasingly, it is recognized that governance and political economy factors play a critical role in shaping development effectiveness and development outcomes. It is also important to gain better understanding of the environment—at country as well as at sector levels—in which World Bank operations are taking place, to define feasible entry points and seize opportunities to promote progressive change.

Applying problem-driven governance and political economy analysis is not a panacea but should help with:

• Enhancing World Bank strategies (e.g. CASs, ISNs, sector strategies) and operations, and improving their feasibility.
• Finding ways to change Bank programming if a ‘best practice’ technical approach has not been accepted, is not implemented and/or produces negative unintended consequences.
• Supporting Bank staff to be more informed and effective interlocutors with clients.
• Speeding up the time taken to inform staff newly working on a country about relevant governance and political economy contexts.

The objective of this good practice framework is to systematize approaches to governance and political economy analysis for World Bank task team leaders and teams. As country and sector situations are very different, this framework does not set out a particular product but instead presents a menu of options, proposes standards for diagnostics and synthesizes lessons learned.

The emphasis on a ‘problem-driven’ approach helps to make the analysis operationally relevant, and comprises working through three layers: first, identifying the problem or opportunity to be addressed, second, mapping out the institutional and governance arrangements and capacities and, third, drilling down to the political economy drivers. This basic approach can be applied to analysis at country, sector, or project levels.