

Annex 1: A Framework for Country Political Economy Analysis

1.1 Purpose, structure and rationale of the framework

1.1.1 Purpose of the framework

This annex presents an analytical framework for undertaking political economy analysis at the country level. The framework consists of a list of structured questions to help the analyst investigate key aspects of the political and economic processes at work in a given country context, and to understand relationships as well as assess how they influence incentives and capacity for collective action, and therefore development outcomes.. The concepts underpinning the framework are explained in section 2 of the main paper.

The framework is intended to deepen EC staff's understanding of the country context and to promote discussion of how EC development assistance can best interact with national political economy dynamics. It is intended to fulfil several operational purposes:

- Providing a better understanding of the countries where the EC works, improving the knowledge of existing staff in country and providing a detailed induction tool for new staff.
- Contributing to the drafting of a more grounded and realistic National/Multiannual Indicative Programme.
- It will inform choices about priorities, objectives and expected results for EC support as well as implementation arrangements, and better define linkages between EC interventions and modalities
- Enabling better assessment and management of country programme level risks and opportunities
- Informing EC's strategy on country level policy dialogue

The country political economy analytical framework is a tool that can be created, updated and used by Delegations at any time. However, there may be opportunities in the country life cycle such as elections or major policy changes when a political economy analysis may be particularly relevant and is likely to be especially useful for informing programming and policy dialogue. Resource requirements can vary considerably, depending on the extent to which the study can draw upon existing material (including pre-existing political economy analysis) and on the need to conduct original research (see section 6 of the Background Note for further practical advice on commissioning political economy assessments).

1.1.2 Structure and rationale of the framework

The first part of the analysis is structured around three main headings: Foundational Factors, Rules of the Game and the Here and Now. A summary of the framework is given in table 1 below. The structure has been deliberately designed to prompt the analyst to think about the scope for developmental change in a given context; and about the way different factors interact to create complex systems that shape the interests and behaviour of key actors and the relationships between them. These issues are of critical operational importance for donors in making realistic judgements about the scope for supporting reforms.

The framework starts by looking at “foundational” factors that fundamentally affect the nature of the state and political system and economic relationships, both directly and indirectly. These are often of long term origin and may be very slow to change. The analysis then looks at “rules of the game” or the political and institutional contexts that are influenced by foundational factors, and in turn shape the behaviour and relationships between key actors, including their motivation and capacity to engage in collective action. These “rules of the game” can be persistent, but are often susceptible to change over the medium term, for example as a result of changes in the external environment, or in domestic socio-economic factors. Under the third heading, the framework looks at the impact of current events and actors, which may be in constant flux: they can offer windows of opportunity for change, but are also constrained by the broader political and institutional context.

The final two sections of the framework suggest how to draw the different strands of the analysis together to consider the scope for change and the implications for EU development assistance.

Table 1 – Structure of the Country Political Economy Analysis¹

Main analytical categories	Key factors to consider
<p>1. Foundational Factors</p> <p><i>Deeply embedded structures that fundamentally shape the broad character of the state and political system. Many have long-term origins, and may be slow to change. However, it is worth asking whether they could change over time.</i></p>	<ul style="list-style-type: none"> • Territorial control • Geostrategic position • Geography • Historical influences • Social and economic structures • Sources of revenue • Natural resource endowments • Economic structures and potential for surplus generation • Economic integration nationally and globally • Structural constraints to growth • Cultural and social imperatives
<p>2. Rules of the Game</p> <p><i>Formal and informal institutions that influence the behaviour of different actors, relationships between them, and incentives and capacity for collective action. May be “sticky”, but can also change over the medium term. The question for the EC is how they will influence the EC’s development interventions, and how to engage with them more effectively</i></p>	<ul style="list-style-type: none"> • Distribution of power between key actors • Rules-based or personalised institutions? • Competition for political power • Informal institutions involved in economic activity • Economic distribution of wealth and the dependency of various economic actors on each other and with power elites • Social communication networks and influence • Key trends

¹ The framework draws on one prepared by Mick Moore, IDS Sussex for DFID in August 2002; and also on the Strategic Governance and Corruption Analysis prepared by the Clingendael Institute for the Netherlands Ministry of Foreign Affairs, The Hague 2008.

<p>3. Here and Now</p> <p><i>Captures the current behaviour of individuals and groups and their response to events (“games within the rules”). May provide short-term opportunities or impediments to change.</i></p>	<ul style="list-style-type: none"> • Impact of current events, leadership, political and financial resources. • Conduct of day to day politics • Global forces that affect the private sector
<p>4. The political economy context for developmental change</p>	<ul style="list-style-type: none"> • How the interaction of foundational factors, rules of the game and the here and now influences <ul style="list-style-type: none"> ○ the scope for solving collective action problems ○ the distribution of economic, political and social power ○ the EC’s development results
<p>5. Implications for EU development assistance</p>	<ul style="list-style-type: none"> • Lessons learned from previous EU assistance • Scope for EU to support more constructive state-society bargaining and collective action • Scope for EU to support economic development that will help meet poverty-reduction and other strategic goals • Implications for strategy, programming, policy dialogue and risk assessment

1.1.4 How to use the framework

The framework should not be used mechanistically. It has been designed as an aid to understanding and reflection, not a box ticking exercise or an assessment against an ideal model or set of criteria. There are clearly important linkages between the three broad analytical categories, and between the main groups of questions within each category. For example, within the category of foundational factors, the history of state formation is likely to be closely linked to sources of public revenue, and both will help shape social and economic structures. So although the questions are listed sequentially, they should be applied with flexibility (the Zambia country study, for example, recognised that the history of state formation was inextricably linked to copper mining). Under rules of the game, there will be links between the distribution of power and the configuration of formal and informal institutions, and both will affect how political and business competition works, as well as the capacity and incentives for different civil society groups to mobilise. The analysis should highlight these linkages. While all the key factors listed in table 1 should be considered and are likely to be relevant in most settings, some will clearly be more important than others in a given context, and Delegations should adapt the framework to fit their own needs. The more

detailed questions listed under each sub-section are indicative of the kind of issues likely to be relevant; they are designed to prompt reflection and may be replaced with, or supplemented by others that have more local relevance.

Section 5 below explains how to use the framework to assess the scope for developmental change at a country level. In considering interventions in specific sectors or thematic areas, it will be necessary to drill down further to explore the impact of foundational factors, rules of the game and the “here and now” (see annex 2 below). Applying the same broad analytical categories will help in considering the scope for change. For example, box 1 below suggests how the framework might be used to assess the scope for a newly elected government to address corruption.

Box 1: Assessing Foundational Factors, Rules of the Game and the Here and Now in relation to anti-corruption strategies.

A newly elected government proclaims “zero tolerance for corruption”, and includes people who genuinely want to take action. However they are likely to be constrained by:

Foundational factors: for example, an economy based on oil or mineral revenues, that undermines incentives for tax bargaining and accountability to citizens, and for nurturing broadly based growth.

Rules of the game: for example, systems of patronage may underpin political stability and provide the main basis for electoral competition, reinforced by deeply engrained public attitudes that legitimise some forms of corruption.

Here and now: for example the new government may need to provide rapid rewards to its supporters, and to recoup election expenses. In each case the question is how these factors might influence local political incentives and pressures for or against addressing corruption, and how the EC might design interventions to engage more effectively with these local dynamics. This kind of analysis might suggest strategies for addressing corruption that take account of short term opportunities to support reformers, but that also involve much longer term, more indirect action (for example to increase the transparency of oil revenues, reduce opportunities for money laundering, strengthen tax-based accountability relationships, disseminate research into the costs of corruption in public procurement). It also highlights the need to be realistic about the likely pace of change

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example, while it acknowledges the importance of cultural factors, values and ideas, it picks up on these mainly in so far as they influence institutions, or are captured in perception surveys. The framework can usefully be supplemented with other analytical tools to pursue specific issues (such as conflict and fragility) in more depth: where this seems likely to be relevant, it is indicated in the text.

Finally, while undertaking country level analysis calls for a significant initial investment of time and effort, it is important to see this not as a one-off endeavour but as an on-going initiative to be revisited and updated on a regular basis. This type of analysis needs to be mainstreamed into the EC’s regular reflection on its strategic engagement at country and sector level.

1.2 Foundational factors

The questions in this section are designed to help identify the factors that fundamentally shape the broad characteristics of a political system, including embedded social and economic structures. These will vary greatly from country to country, with different implications for collective action. While foundational factors impose significant opportunities and constraints, their effects are not automatic. For example, ethnic divisions or difficult geography will not always result in state fragility, although they may make it more difficult for parties to engage in constructive bargaining. While foundational factors generally change slowly over time, they may undergo rapid transformation, for example if oil is discovered, or there is a major geo-political shift, such as the ending of the Cold War. Any short term shifts of this kind should be noted and picked up under rules of the game (“key trends”), or the here and now (“events”).

In addressing foundational factors, the analyst should aim to capture their continuing significance in explaining current development outcomes and opportunities for change; the objective is not to provide a detailed description or historical account for its own sake.

1.2.1 Territorial control

The starting point is to know whether the government broadly exercises authority over its population and territory, and controls its borders, or whether there are parts of the territory which remain outside government control. This will fundamentally affect incentives of political elites and priorities for development interventions. If elites are pre-occupied with establishing basic authority they may not be very interested in growth or poverty reduction. In cases where there is no effective political authority, the priority may be to establish security and negotiate a political settlement. These issues can be explored in more depth using other analytical frameworks and guidance (see “useful sources” below).

Questions to consider might include:

How does government authority vary across the country’s territory? Consider government’s ability to enforce security, administer justice and collect taxes.

Are there disputed territories, or a serious challenge from armed insurgents or other non-state actors? If so, does this pose a fundamental threat to state viability? Has it affected the nature of the state (e.g. by emphasising military control above more developmental functions)?

Useful sources:

Broad literature search, International Crisis Group reports, Saferworld reports, Stockholm International Peace Institute (SIPRI) studies, Economist Intelligence Unit (EIU) reports, local media reports. In fragile situations, see Parks, T. and Cole and W. (2010), Political Settlements: Implications for International Development Policy and Practice, Asia Foundation - <http://asiafoundation.org/publications/pdf/745>. Also OECD (2011) “Supporting State-building in Situations of Conflict and Fragility: Policy Guidance”, Development Assistance Committee International Network on Conflict and Fragility (INCAF)

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1.2.2 Geostrategic position

The state's relations with neighbouring countries and regional and global powers can have an important influence on governance and development. In some cases (for example Afghanistan) this may be critical.

Questions to consider might include:

How have the country's external relations affected state capacity and development outcomes? Is there a regional power in the neighbourhood, which exerts significant influence on the country? Does the government have autonomy in shaping its own policies?

Consider the impact on security, trade and investment. Is the country landlocked and so economically dependent on neighbouring countries? Is it particularly vulnerable to external interventions or regional instability? Are there strategic resources that are of interest to external players?

Are there cross-border ethnic groups that have an impact on state stability or legitimacy? How do these external factors affect governance within the country?

Useful sources:

EUD reporting from political, trade and economic sections; literature sources including International Crisis Group reports, Economist Intelligence Unit reports, WTO and OECD country reviews.

EC Sustainability Impact Assessments (SIAs) are carried out on a regional basis and seek to identify the potential economic, social and environmental impacts of trade agreements. http://ec.europa.eu/trade/issues/global/sia/studies_geo.htm

World Bank Country Trade Diagnostic Studies
<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:20615178~menuPK:1574524~pagePK:148956~piPK:216618~theSitePK:23071,00.html>

1.2.3 Geography

The natural environment will shape development options more broadly, but the intention here is to identify geographical features that have a continuing, direct or indirect impact on the basic characteristics of the state and political system.

Questions to consider might include:

Are there geographical features that could impede central control over the territory, present physical barriers to communication, or lead to the isolation or marginalisation of particular groups or regions? Do population size and density create significant challenges?

Is competition for scarce resources (water, land), or particular patterns of exploitation of natural resources a potential source of conflict, constraints or opportunities?

Useful sources: Academic research, media reporting, International Crisis Group reports.

1.2.4. Historical Influences

A country's history influences state formation and shapes the internal distribution of political and economic power as well as relationships between different groups and regions. For example, it may lead to economic, social and linguistic divisions with a lasting impact on governance and development. Colonial history (including the history of indirect/direct rule) is likely to be relevant and have continuing influence, helping for example to explain a weak sense of government legitimacy and political community, horizontal political/social inequalities, or inter-group hostility. Current policies or challenges may have their origins in colonial or other historical patterns of land distribution and resource allocation (these can be noted and pursued through more detailed sector level analysis). Patterns of rent management may have become entrenched as an integral part of state-building efforts, affecting perceptions of their legitimacy. This section must also deal with the historical distribution of economic power, how it developed, and how it continues to affect relationships between the political and the business elites, and constraints to entry into markets by outsiders.

Questions to consider might include:

What was the history of state formation? Was it a colonial construct or based on institutions that evolved through local political processes?

How have historical factors shaped perceptions of state legitimacy by different groups? Do they help explain patterns of formal and informal institutions?

How has the country's history shaped the access to political and economic power of different groups, and relationships between them? Does it help explain dominant groups, or centralisation / fragmentation of political or economic power?

Has it given rise to regional or social inequalities, with continuing impact on current politics and patterns of development?

Is there a history of violent conflict, which feeds into current grievances?

Are relationships with neighbouring countries affected by a history of conflict?

Useful sources:

Academic studies, historical monographs including anthropological studies.

1.2.5 Social and economic structures

Social and economic structures, including social networks and kinship groups, occupational groups, and patterns of ownership of land and capital, affect the basis for political mobilisation, and the ability of different groups to organise and influence policy. Long-standing, significant income gaps or other inequalities between "horizontal" groups and regions can affect the overall level of social cohesion and perceptions of state legitimacy, and may increase risks of violent conflict. The implications are considered in more detail under rules of the game (section 1.3 below). Here the interest is in the way social and economic structures fundamentally shape the political system: for example it will make a difference whether there are dominant religious or landed elites; whether the economy is based on mining, or plantation agriculture; whether there has been land reform; whether

there is a large informal sector or more diversified, formal economic structures, and so on.

Questions to consider might include:

Are there socio-economic structures with implications for governance, for example an organised working class based on industry or agriculture, a significant middle class, a dominant and repressive landowning class?

Are there powerful social and religious networks that shape the nature of the state or political system? (for example Pakistan, Somalia).

Are there major inequalities and income gaps between social groups that affect capacity for collective action? Are there divisions and inequalities that affect the overall level of social cohesion?

Is the economy dominated by a small number of powerful players, or is there a more diversified formal economy that supports a broader tax base, and mobilisation of interest groups? Is there a large informal sector that makes mobilisation harder?

Useful sources:

Academic research, World Bank and IMF country reports, media reporting, conflict assessments, International Crisis Group reports, NGO reports, also what about religious organisations like Catholic Church they have networks and have loads of info where they are based (mentioned also in Zambia case study)

World Bank Country Trade Diagnostic Studies: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0..contentMDK:20615178~menuPK:1574524~pagePK:148956~piPK:216618~theSitePK:23071,00.html>

1.2.6 Sources of revenue

The source of government revenues has a particularly significant impact on state-society relationships. Incentives for constructive bargaining with citizens are likely to be stronger where government depends on business and personal taxes that increase as a result of economic growth, and where revenue raising creates pressure for citizen taxpayers to mobilise and demand accountability for how public money is used. Where political elites have easy access to “unearned” sources of revenues (such as mineral rents) they are likely to have weak incentives to foster growth and engage in constructive bargaining over taxation.

Questions to consider might include:

What is the source of government revenues? To what extent is the state dependent on citizens for tax revenue? Or does it have access to “unearned” sources such as revenues from export of minerals (especially oil and gas)?

Do political and economic elites have access to revenues arising from illegal practices, such as corrupt business practices, smuggling of diamonds and other minerals, and illegal trading in narcotics or other criminal activity?

How does the structure of the economy affect sources of revenue? Which economic sectors provide the main sources of jobs, economic growth and government revenue?

Useful sources: Academic research, IMF reports, Government financial statistics, Ministry of Finance data, OECD GOVNET framework on “International Drivers of Corruption”.

WTO Trade Policy Reviews http://www.wto.org/english/tratop_e/tpr_e/tp_rep_e.htm

Extractive Industry Transparency Initiative Country Reports <http://eiti.org/fr>

1.3 Rules of the Game

Definitions and key concepts

Institutions or "rules of the game" are **established patterns of behaviour that shape the social, political and economic relations between actors** (both individuals and organisations). They provide the context for day-to-day behaviour and decision-making. Rules of the game matter because they fundamentally influence the capacity of a society to negotiate competing interests and resolve disputes; and to organise different kinds of collective action needed to nurture economic growth and provide basic services. They are therefore critical to development outcomes.

The analysis is concerned with **formal and informal institutions and actors, and how and why they interact** as they do. Formal institutions help shape the rules of the game, including for example constitutional provisions governing electoral competition, or the distribution of power between national and subnational levels of government. But if formal constitutional and legal arrangements are to be broadly accepted as legitimate, they need to be underpinned by more informal understandings about how power should be shared and used. These include long-standing customary practices, but also on-going bargaining between elite groups that reflects the balance of power between them (Di John and Putzel 2009). In many developing countries, formal rules are of recent origin or have often been imported from outside, and may lack widespread legitimacy. The actual rules of the game are likely to be an (often uneasy) mixture between formal and informal arrangements.

The analysis therefore recognises a role for both formal and informal institutions. It does not make a presumption that the way to make progress in the short to medium term is by attempting to constrain informal practices, or prioritising capacity building of formal institutions. Changes to formal institutions² can be productive, but they can also have unanticipated effects, and are likely to be resisted or ignored if they run counter to powerful interests. **While more predictable, rules-based arrangements and closer alignment between formal and informal institutions are desirable goals, these have to be negotiated through local political processes.** So the questions in this section are designed to help understand how those processes are shaped by the prevailing rules of the game, and what might make them more productive.

This section will probably be the most important and challenging part of the analysis, and adequate time should be devoted to it. Outsiders will always find it hard to understand informal institutions, and local knowledge will be indispensable. The questions in this section are designed to highlight the main features of the political and institutional context, including the private sector, and their implications for development. They are organised under four headings to help structure the analysis, but these obviously overlap to some extent: for example, the distribution of power between actors (section 1.3.1) will be influenced by the extent to which different groups (such as political parties, civil society groups, the private sector) are institutionalised (section 1.3.2), and what role they play in political competition (section 1.3.3). The questions are designed to help highlight these linkages. The main headings are as follows:

- The **distribution of power**: in particular, how is it shared between the political executive and other groups? Who does government have to take notice of?

² For example, changes to a "winner takes all" electoral system designed to produce more stable, legitimate outcomes.

- **Rules based or personalised institutions?** Do rules of the game work on the basis of personalities and personal connections; or more impersonal, publicly recognised and predictable rules?
- **Political competition.** How is it conducted, including the interaction of formal and informal institutions, and relations between politicians and private investors.
- **Key trends.** These include socio-economic changes or a changing regional and global environment that might contribute to changing the rules of the game over the medium term.

1.3.1 Distribution of Power

This section looks at the way power is shared between influential groups. Power is relational, so a useful starting point is to consider the way power is distributed between the political executive³ and other groups, including the private sector. In other words, which groups does the political executive have to take notice of? There are various sources of such counter power, including the judiciary and legislature; regional warlords able to organise violent opposition; traditional authorities and religious leaders who can mobilise supporters and draw on their own sources of legitimacy; civil society organisations with a membership base or international support networks; private sector groups; and external actors able to offer or withhold foreign investment or aid.

The distribution of power will be governed by both formal and informal institutions. The first set of questions explores the role of mainly formal institutions in shaping the distribution of power. It should be noted that the objective here is not to provide a detailed description or normative assessment of the formal constitutional and legal framework, but to consider its overarching influence on rules of the game.

How the constitution and legal framework affect the distribution of power.

³ The political executive typically includes the Office of the President and Cabinet ministers.

Questions to consider might include:

Is there a formal constitution that is widely accepted, and broadly observed, or is it frequently changed/contested?

How is power formally distributed between the legislature, executive and judiciary? How far does the constitution provide for formal constraints on the political executive? Does it vest particularly high levels of authority in the President?

Are there particular features of the constitution that affect the distribution of power, for example reserved seats in the legislature for the military, or other aspects of civil-military relations; high levels of autonomy for sub-national government; or provisions that discriminate against particular groups or regions?

Does it provide formal guarantees of fundamental freedoms and human rights, including freedom of association, or are there significant gaps in provisions? Is there a secure legal framework within which civil society, interest groups and political parties can operate?

In fragile situations, it may be more useful to consider whether there is an informal bargain between elites (or "political settlement") that substitutes for a formal constitution, or which could provide the basis for negotiating one. Alternatively, are the terms of any settlement highly contested between different centres of power?

Are there constitutional or legal provisions that influence the distribution of power between the public and private sectors, or within the private sector? Do they offer full protection for property rights? Do they facilitate or impede the formation of private enterprises, and economic competition?

Useful sources:

Governance assessments by other donors and international civil society organisations. Focused interviews and stakeholder workshops. A useful tool for mapping the political settlement at both national and sub-national levels has been produced by the Asia Foundation.

The second set of questions explores how power is in practice distributed between the political executive and other groups. The overarching question, elaborated in table 2 below, is which groups have power and influence over the political executive? ⁴ The questions prompt the analyst to consider which groups matter, why they matter and how they exert influence on national level politics, and is broadly equivalent to an "actors" analysis in other analytical tools. While all the groups listed should be considered, some may be relatively uninfluential, and it will probably be useful to select a smaller number of powerful actors for more in-depth analysis. The text in the boxes is designed to direct attention to issues likely to be relevant and should be adapted as necessary.

Table 2 – Which groups does the political executive have to take notice of?

Who matters?	Why do they matter?	How do they matter?
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⁴ This draws on an analytical framework prepared by David Booth, ODI for DFID in 2008.

<p>The military</p>	<p>To what extent is the military institutionalised and predictable (section 1.3.2) and subject to civilian control? The military is likely to have a strong negotiating position where there is an on-going security threat. They may also have legitimacy deriving from a particular historical event, or by claiming to embody certain values (secularism, democracy).</p> <p>They are generally very well educated (at least the cadre) What links exist between the higher echelons of the military and business, political or landed elites? Are these personalised or institutionalised?</p>	<p>They may have extensive (legal or illegal) business interests; absorb a large proportion of formal budgets (or off-budget expenditure), may be involved in various forms of rent seeking, and influence specific areas of policy-making.</p> <p>They may also be important consumers of local products and may support a sizeable economic base (e.g. import through local agents).</p>
<p>Other security services (intelligence, police)</p>	<p>Are they institutionalised and under government control? If not, they can operate covertly or have coercive powers without accountability, especially in regions where political opponents predominate.</p> <p>To what extent are private policing forces used in the country? For what purpose?</p>	<p>These may influence policy; can suppress political opposition; collude with/participate in terrorist or criminal networks.</p>
<p>The legislature</p>	<p>In addition to constitutional authority they may have some independent popular legitimacy. But their influence can be limited by lack of funding, and co-optation by the executive.</p> <p>To what extent are members of the legislature likely to support particular business-related policy positions because of family ties or personal investment?</p>	<p>May have capacity to originate or modify legislation, exercise financial control, influence policy and launch investigations.</p>
<p>The judiciary</p>	<p>Despite formal constitutional authority to uphold the constitution and rule of law, they are often subject to executive interference, or open to bribery.</p> <p>They may have close personal connections to the political elite that constrain their ability to operate independently.</p> <p>They may lack adequate public funding, technical capacity and administrative support.</p>	<p>Depending on their degree of independence, they may be able to challenge the legality of policy and restrain illegal practices by the executive.</p>

Political parties	Influence will depend on how far parties are institutionalised (1.3.2 below), with a broad membership base and access to funding.	Institutionalised parties could play a vital role in aggregating and negotiating different interests. May be able to hold the political executive accountable (and even vote for alternative party leadership).
The public bureaucracy	Can act as a source of independent, professional integrity, or may be co-opted by the executive or act in their own interests.	Ability to influence policy making and implementation (positively or negatively).
Sub-national government	May have constitutional authority and a measure of legitimacy gained through local elections and/or connections to traditional authority. Much depends on the extent of administrative/fiscal and political decentralisation, and ability to raise revenue.	Can act as an agent of central government control, or as an alternative source of power and legitimacy. Local government may consume a large share of the national budget and significantly influence policy making.
Public enterprises	May control large revenues (e.g. from natural resource exports or monopoly rents), or provide major sources of political patronage (including jobs). Public expectations of subsidised services may constrain policy choices by the political executive as well as economic growth.	May provide the political executive with (often covert) financial and other support; or may act independently as a “state within a state”.

<p>The private sector</p>	<p>There are many reasons why the political executive has to take notice of the private sector. It may provide a major source of public revenue through taxation. It is the key to economic growth (and therefore jobs and poverty reduction), and influences many areas of public policy (e.g. environmental management, bank security). Business provides finance for individual politicians, political parties, and key media outlets. A small number of large, transnational companies may exercise significant policy influence, as may dominant domestic players. The collective ability of business to control movements of private capital can constrain government policy making through exercise of “structural power”. Business may also have capacity to mobilise and make collective demands, but may be constrained if the formal sector is small and has limited access to independent sources of capital.</p> <p>The influence of private sector demands can be positive or negative for development depending on the context. A key issue (picked up in section 1.3.2 below) is whether relations between public and private actors are impersonal, rules-based and “institutionalised”, and demands broadly based; or whether relations are exclusive and personalised. In practice, boundaries between public and private sector actors may be very blurred.</p>	<p>The private sector can have significant influence (either positive or negative) on a wide range of policy areas including taxation, macroeconomic management, and business regulation.</p>
<p>Traditional authority, including landed elites</p>	<p>May draw on sources of legitimacy that are independent of the state – for example legitimacy that is rooted in religious or customary beliefs or practices. They may also control access to land and jobs, play an important role in dispute resolution and influence voting patterns.</p> <p>The landed elite may enjoy access to different sources of social, economic and political power – e.g. as religious leaders and as owners or managers of private sector businesses.</p>	<p>Could have significant influence, especially at a local level, either as supporters or opponents of the political executive.</p>

The mass media	The influence of the media depends on a variety of factors including how far it is able to operate without political interference, whether it has independent sources of finance, who owns and controls it, and whether it has significant capacity and outreach, including at sub-national level.	The media may act as an independent voice to expose political malpractice, or highlight particular aspects of government's performance in implementing development policies. But in practice it may exercise self-censorship or reflect the interests of particular groups.
Religious organisations	May have constitutional authority (e.g. in a theocracy); independent legitimacy and sources of finance; ability to mobilise supporters; connections to political elites; and support from international networks.	May have significant influence on elections and public policy. But impact is variable and may be undermined by politicisation, ethnic bias or collusion in corruption.
Civil society organisations	Their influence will depend on the legal framework but also their membership base, institutional capacity, links to international networks and independent sources of revenue. Ability to influence policy will also depend on extent of institutionalisation of public policy and budget processes, which influence capacity and incentives to mobilise support (see 1.3.2 below).	They can act as sources of public scrutiny and policy advocacy, and deliver services (in conjunction or in competition with public provision). Alternatively CSOs may be captured by a donor or government policy agenda, and be reluctant to organise politically.
Uncivil society	Narcotics traders, organised criminals, warlords or terrorists may wield significant financial and therefore political power.	They may be able to co-opt politicians, bureaucrats, police. They may effectively control parts of the territory, and can organise violent opposition. May use "grey" money to purchase legitimate firms; where they establish a significant hold on a sector, may use their combined power to change the nature of competition. (ex. hotel industry, casinos, transport)
External actors, including donors	Donors in aid dependent countries control access to crucial resources. Foreign governments, international and regional organisations may exercise global or regional leverage through ability to provide / withhold legitimisation of government policy; impose reputational penalties, regulate access to markets and finance.	May have significant potential to influence public policy and private sector behaviour – both positively and negatively.

1.3.2 Rules-based or personalised institutions?

The purpose of this section is to consider how the formal and informal institutions of the state, civil society and the private sector work and affect the way business is conducted and relationships are managed. In particular, it focuses on ***whether the “rules of the game” operate primarily on the basis of personalities and informal, personal connections; or whether government, civil society and private sector organisations follow known, transparent rules*** and procedures, so that their behaviour is routinized and predictable (or “institutionalised”).⁵ More transparent, predictable and rules-based behaviour is likely to strengthen incentives and capacity for collective action, including mobilisation by or on behalf of poor people. Section 1.4 below looks in more detail at how these arrangements affect political, social and economic transactions that take place every day.

The focus is on how different parts of government, civil society and the private sector actually function, rather than on whether they follow any specific institutional model. More “institutionalised” (routine and predictable) behaviour is likely to be embedded in a formal organisation or procedure, but this will not always be the case. For example, informal village level organisations can also follow known, generally accepted but unwritten rules; and informal relations of trust between business actors can provide a predictable environment for trade or investment where formal safeguards are lacking. Moreover, all organisations depend to some extent on informal arrangements and relationships to function effectively. The question is whether those informal “rules” support or undermine the formal ones.

Institutionalised behaviour is not always a good thing. Bad practices can be institutionalised, and a political executive that faces few restraints but is highly institutionalised can abuse its power. However, many poor countries tend to suffer from highly personalised government where powerful individuals can easily change the rules, with the result that public policy-making is arbitrary, inconsistent and unpredictable. In such cases state-society engagement is likely to be weak or exclusive because there will be no clear policy process within which a broad range of interest groups can engage, and few expectations that government will respond effectively to mobilised demand. The same is true for the private sector: if policy rules and frameworks concerning the market and its management⁶, can be changed in arbitrary and unpredictable ways, that is likely to undermine incentives for investment, and encourage individual firms to use personal networks to lobby government for exclusive benefits, rather than organising on a broader basis to present common demands for policy changes that would apply more widely and transparently. Collective action amongst private sector entities depends on predictability.

In short, ***more predictable behaviour based on impersonal, publicly known rules can help to build a virtuous circle of engagement between state and society (including citizens and their representatives, and the private sector)***. For example, more predictable behaviour by politicians and bureaucrats could increase opportunities and

⁵ A policing system, for example, is institutionalised to the extent that officers are recruited and promoted according to transparent and publicly recognised criteria, there are clear procedures for reporting crime and the responsibilities that the police undertake are relatively uniform across the country.

⁶ For example, modifications to supply arrangements, imposing limitations concerning competition, modifying allocations of monopolistic opportunities or on ownership structures)

incentives for members of the legislature, civil society or private sector organisations to engage with public policy-making or public asset allocation processes (including national budgets, natural resource concessions for forests, fisheries stocks and mines). More rules-based engagement could also help to change public expectations, encouraging non-state actors – including those working on behalf of poor people - to organise around shared demands for public goods. More effective organisation by citizens could strengthen the capacity of public policymakers to design and implement policy, and make credible commitments to citizens.

A similar logic also applies to the economic sector. Not only do predictable rules reduce risk and so encourage investment. More rules-based, transparent relationships between public and private sector actors can make processes of political bargaining more inclusive, and provide a level playing field that supports more open competition.⁷

The purpose of the questions below is to identify which parts of the political and economic systems are rules-based and which are more personalised, and to consider how this will affect both the supply and demand for better public policy and economic growth. It can also be useful to identify pockets of more institutionalised behaviour, to ensure that aid does not inadvertently undermine them, and to suggest where there might be existing capacity on which to build.

The EUD will need to exercise judgement about how much time and effort to invest in this part of the analysis, depending on their individual requirements. However, as noted above, the purpose at this stage is not to provide a detailed institutional mapping of all the different parts of government or the private sector. That could be pursued as necessary when undertaking sector level studies. The objective in country-level analysis is to gather the information required to draw conclusions about the opportunities and challenges presented by the country context, and therefore inform the EC's strategic analysis. Ultimately, the analysis needs to reduce risk at the strategic level and improve the effectiveness of aid and deliver greater results. The EUD will need to define how much and what level of analysis is required for those purposes.

⁷ However, this involves long-term complex processes of political and economic transformation (see North et al 2009). There are few easy short-cuts to improving the investment climate by importing policies or institutional models from OECD countries.

Questions to consider might include:

To what extent does the government follow transparent, known rules? For example, an analysis of government systems could include the recruitment, promotion, remuneration and management of public sector staff; arrangements for raising revenue, budgeting, public expenditure, accounting and auditing; and policy-making processes including requirements for consultation.

To what extent do politicians get involved in day-to-day decisions about public procurement, tax administration, public sector recruitment and management? Are there hidden costs associated with procurement, including bribe-taking?

Are some parts of the public sector more institutionalised than others? (for example the military or selected ministries, or state-owned enterprises)?

Is there a relatively autonomous revenue authority with the capacity to enforce compliance and mobilise domestic revenue? Are there particular reasons for this? How transparent and inclusive is the revenue system?

How far have political parties installed and used internal procedures for making decisions that are independent of individuals? Do they have clear rules on membership, finance and election of officials? (These measures could enhance their capacity to agree on consistent policy positions rather than acting as vehicles for individual politicians).

Do civil society organisations, trade unions and professional and business associations have clear rules about membership, election of officeholders and financial procedures? Do they seek redress of grievances / pursue demands through personal networks, or through organised action around shared interests? How do they create and mobilise a membership base?

With respect to the private sector, how far is there a diversified, formally organised private sector? Are there institutionalised enterprises capable of formulating policy demands, negotiating common interests with other enterprises, and channelling demands to government, or through political parties? Or do large sectors of the economy operate informally?

How far is it likely that partnerships, contractual arrangements and other inter-firm agreements will be based on competition rather than on other bases such as cronyism or personal preferences?

Is there a security exchange or similar organisation that has the power to make and supervise business-place rules concerning competition, accountability, social impacts, price-fixing, etc?

Useful sources:

Governance assessments by other donors and international civil society organisations, World Bank governance indicators, focused interviews and stakeholder workshops.

PEFA Reports and EU Delegation PFM and Macroeconomic supplementary documents for BS disbursements could be starting points.

NSA Mappings for last set of questions

1.3.3 Competition for Political Power

The extent and nature of political competition fundamentally influences the incentives and behaviour of political elites, and their relations with other parts of society including the private sector and civil society. There is no presumption in this section in favour of more or less political competition: this is dependent on context. In some cases (for example where there is adequate institutional capacity to manage competition peacefully, and some capacity for evidence-based policy debate) high levels of competition can foster public accountability. However, if public institutions are weak and levels of competition are high, this may fuel corruption and encourage cronyism and short-term approaches to decision-making. Conversely, low levels of competition can imply longer periods of being in power and encourage longer time horizons and provide incentives for nurturing productive investment. However, the lack of competition can also encourage abuse of power. The questions in this section are designed to help the analyst assess ***how political competition actually works in a particular context***.

The extent and nature of political competition is shaped both by the formal constitutional and legal framework, and by much more informal factors. A particularly critical issue that affects a broad range of development outcomes is the extent to which political competition is based on delivering exclusive patronage benefits (jobs, money, access to services, monopolistic privileges and other sources of rents) directly to supporters or "clients". This will tend to happen when the formal productive sector is small and unable to support a broad range of public services. How these patterns of clientelism play out in a particular country context will also depend on: 1) the sources and levels of public revenues from taxation or other means; 2) the extent to which the system is highly personalised or institutionalised; and 3) on the distribution of power and the level of competition. In low income countries, increasing levels of political competition are likely to result in a rise in clientelism. At higher levels of economic development (when government jobs are less important because there are options in the private sector, and patronage resources are insufficient to satisfy growing demands from more organised groups of citizens) the response is more likely to include a commitment to providing public goods.⁸

⁸ Kitschelt and Wilkinson (2009), "Patrons, Clients and Policies: patterns of democratic accountability and political competition", Cambridge University Press.

Questions to consider might include:

Does the constitution and legal framework provide for regular, open, inclusive competition for political power?

Is political competition conducted through broadly non-violent means, and regulated by law? Is there a dominant party? Or a history of peaceful alternation of power between different parties? Are political opponents subject to repression?

How important is political power to those who compete for it? Does personal wealth or security depend on winning? (If so, there may be abuse of formal procedure, and possibly violence as a precursor or a consequence of any transfer process such as elections).

To what extent is the citizen able to vote/join political parties? Are particular groups excluded (legally, or in practice)? Are any groups specifically associated with a particular party (such as labour unions and social democratic parties, or business groups with conservative parties)? What are the consequences of exclusion or inclusion?

How far do political parties organise around (and seek support through) programmes rather than personalities?

How are political parties financed? Are there formal rules governing private donations, and are they observed? Are there dominant business groups (e.g. mining companies) that exercise particularly strong influence over electoral outcomes (e.g. by providing finance, or because they are major employers)?

Taking account of sections 1.3.1 (distribution of power) and 1.3.2 (rules-based institutions), how does the private sector seek to influence political competition? Through personal networks and private donations in return for exclusive benefits, or through more open organisations that seek to influence political parties?

Is competition organised around ethnicity (This can be a powerful mobiliser, but may not provide a good basis for compromise with other groups).

Useful sources:

Governance assessments by other donors and international civil society organisations. Focused interviews and stakeholder workshops. Public perception surveys (e.g. Afrobarometer).

1.3.4 Key Trends

This section looks at whether there are major political or socio-economic trends or pressures that are helping to change the rules of the game. The interest here is not in current events (covered in section 1.4 below), but in more medium-term changes that could shift the underlying incentives of key actors.

Questions to consider might include:

Changes in the level or nature of political competition (for example, with the introduction of multi-party competition, or the emergence of new challenges within the dominant party).

Major policy changes (e.g. privatisation, liberalisation) that affect the distribution of power and resources.

Changes in patterns of social awareness and increases in demands for improvements in the conditions of life, including demands for access to information, to human rights, to basic freedoms including freedom of assembly and of speech.

Global or regional changes that will bring with them modifications in levels or patterns of economic growth, including the balance between formal and informal sector employment; changes in business organisation structures, the emergence of more autonomous entrepreneurs; increased foreign investment, and economic diversification.

Changes in the global or regional economy, including changes in key markets that affect business interests – particularly businesses that have to comply with international regulation (for example, health and safety, or environmental requirements). Shifts in global or domestic public opinion that impose reputational pressure on governments or businesses (for example, concerns over child labour, illegal logging, climate change, and other environmental issues).

Environmental pressures

Demographic or urbanisation changes (for example, a youth bulge, or large scale migration to urban centres) that might prompt elite concerns about unemployment and civil unrest, and its impact on stability; improved communications (better roads, the spread of mobile telephony); better education (especially of women) that might strengthen capacity for collective action by non-state actors.

Changes in the security framework of the country including geostrategic changes in regional security environment, or political, social or economic changes in neighbouring countries.

Significant medium term changes in the cost of energy or of basic human staples (shorter term fluctuations would fall under the next section 1.4).

Any technology or other innovations taking place in the global marketplace that would seriously affect the locally-controlled business elite? How would that change the balance of power in the country? Would changes in organisational structures happening globally in key economic areas affect the power of the business elite or the support they give or get from political leaders?

What key trends, issues and questions currently pre-occupy the economic elite, and how is this influencing the relationship between the political and the business leaders?

Useful sources:

Governance profiles and governance assessments by other donors and international civil society organisations. Focused interviews and stakeholder workshops. SIAs, Environmental impact assessment carried out for some projects or as part of programming, WB reports, OECD reports EIU, media, NGO reports may all be useful.

1.4 The Here and Now

The focus of this section is on the particular circumstances, events and actors⁹ shaping day to day politics. These may be quite volatile, and can offer windows of opportunity for policy change, or impose constraints, at least in the short to mid-term. Current events may be symptomatic of more medium term trends or changes in “rules of the game”. An important objective of this section is to help the analyst distinguish between patterns of behaviour that are influenced by the broader political and institutional environment, and the impact of particular actors or events in the present. This matters, for example, in assessing how much credibility to attach to pledges of reform, and how much room for manoeuvre individual policy makers may have to support progressive change.

1.4.1 Current context, events and actors

The first set of questions investigates how current circumstances, events and relationships are influencing the behaviour of key actors. The emphasis of the analyst should be on understanding the significance of a number of observations rather than on detailed descriptions.

⁹ Actors can be individuals or organisations.

Questions to consider might include:

How secure are the government's political and financial resources at this time? Has it a stable majority, or is it a fragile coalition?

Any threats to its legitimacy (for example a contested election result)? Does it have an adequate and assured revenue base, or does it depend on volatile aid or commodity prices? Does the government face any form of financial crisis?

Are there significant divisions within the ruling party? Is there an election pending? Is it likely to be closely contested? What will most influence government's chances of re-election? (Party financing and ability to mobilise patronage are likely to be key).

Are there imminent security concerns – internal or external?

Has there been a recent man-made or natural disaster? Have environmental concerns been raised?

Does the leadership of the country suffer from confidence issues such as a significant corruption scandal? Or from international criticism?

Are particular individuals challenging government authority, influencing policy or mobilising interest groups? (For example, a charismatic religious leader, environmental NGOs, social issues based groups (e.g.. People for Education) or opposition politician).

Are there short-term pressures from powerful business interests to change the economic costs of transactions or to re-distribute wealth in the country (for example to take action on power shortages, or to significantly raise interest rates, or to raise the price of basic foodstuffs)?

What issues currently most pre-occupy the political elite? Do these reflect short-term pressures or broader rules of the game?

Which key policy issues of interest to the EC are currently on the political agenda? Which key policy areas are not on the agenda? What is driving this particular agenda?

In an analysis of current events, can the behaviours observed be explained by short-term circumstances or by broader rules of the game? Consider, for example the following: appointments to important public positions; key policy decisions, including decisions about setting tariffs, or other regulatory issues; the award of public contracts; political interference with judicial processes; repression of particular groups or individuals, or promotion of their interests; particularly flagrant episodes of corruption.

Useful sources include EUD political and commercial reporting; EIU reports; local media reporting; key informant interviews, IFC, IMF and WB documents and analyses; UNCTAD and WTO reporting, Analyses from various business analysis service providers such as the Economist Business Reports, Bond and Business rating agencies such as A.M. Best Company, Inc.; DBRS Ltd.; Egan-Jones Rating Company; Fitch, Inc.; [Japan Credit Rating Agency, Ltd.](#); LACE Financial Corp.; Moody's Investors Service, Inc.; Rating and Investment Information, Inc.; and Standard & Poor's Ratings Services.

1.4.4 Recent changes in economic activity

This set of questions looks at day-to-day economic behaviour, and explores the impact of context, events and actors as well as the broader influence of rules of the game.

Questions to consider might include:

Which key economic development issues are currently on the business-political agenda (i.e. the on-going debate between the private sector and the political elite)? Which key issues are not on the agenda? What is driving this particular agenda?

Have any important decisions been made lately concerning access to public resources and economic rents? Have any identifiable groups recently benefitted from new natural resource exploitation rights, public contracts, tax concessions and other policy favours? How entrenched are these interests and were the beneficiaries part of established elites?

Useful sources include EUD political and commercial reporting; EIU reports; local media reporting; key informant interviews, IFC, IMF and WB documents and analyses; UNCTAD and WTO reporting, Analyses from various business analysis service providers such as the Economist Business Reports, Bond and Business rating agencies such as A.M. Best Company, Inc.; DBRS Ltd.; Egan-Jones Rating Company; Fitch, Inc.; [Japan Credit Rating Agency, Ltd.](#); LACE Financial Corp.; Moody's Investors Service, Inc.; Rating and Investment Information, Inc.; and Standard & Poor's Ratings Services.

1.5 The political economy context for development.

This section draws on Foundational Factors, Rules of The Game and the Here and Now to consider how the political economy dynamics at work in a particular country context influence incentives and capacity for development. It deliberately prompts the analyst to reflect on the local context before considering the implications for EU development assistance (covered in section 1.6 below).

1.5.1 Review core development challenges.

There will usually be shared analysis between donors (captured for example in World Bank and EC country strategy papers) about core development challenges and priorities. These are likely to revolve around governance, economic growth and service delivery. The questions below draw on the analysis of foundational factors, rules of the game and the here and now to revisit those assessments.

Questions to consider might include:

What does the analysis suggest are the key, underlying challenges for governance and development? (Foundational factors are likely to be particularly important, for example failure to control the territory; the availability of large, "unearned" sources of revenue from export of oil, gas and minerals; deeply embedded sources of social exclusion, ethnic or other cleavages. Such issues are likely to be very hard to address, although if opportunities arise they deserve high priority. In any event they will have a pervasive influence that needs to be taken into account).

How does the analysis help explain violent conflict, or persistent failures to reform public sector institutions, the private sector enabling framework or public policy? (Rules of the game, including distribution of power and the nature of political competition may be particularly significant, as are business-political relationships. Public attitudes as shaped by historical experience and cultural values may also explain resistance to reform).

How does the analysis help explain weak incentives for productive investment, and economic growth? (Sources of public revenue as well as relations between politicians and investors, as captured under sections on distribution of power and political competition, are likely to be important).

1.5.2 Consider the context for reform.

One useful way of thinking about the potential for change in a given context is offered by the concept of a "spectrum of reform space".¹⁰ At one end of the spectrum are difficult environments where there are weak incentives and capacity for resolving collective action problems. This may be, for example, because politicians have independent sources of revenue and therefore little need to provide additional public services or to nurture broadly based economic growth; or because the underlying political settlement is unstable; or because political competition revolves around patronage or ethnicity rather than the

¹⁰ See Levy, B (2010), "Feasible policy: Beginning with things as they actually are", World Bank Blog <http://blogs.worldbank.org/governance/feasible-policy-beginning-with-things-as-they-actually-are>

provision of public goods.. At the other end of the spectrum are contexts where more ambitious, transformational change may be possible.

Political economy analysis can help in considering where a particular country might be positioned along the spectrum. If there is limited "reform space", donors may need to focus on looking for politically feasible, incremental ways of making progress by exploiting whatever space is available in the short-term, helping to broker more constructive engagement between actors while looking for more indirect approaches that might shift interests and incentives of influential players over the medium term. If there is more scope for transformational change, objectives for development assistance can be more ambitious. The questions below highlight factors likely to be relevant in assessing incentives and capacity for positive change.

Questions to consider might include:

What kind of state and political system are we dealing with? Is there effective, legitimate political authority, and basic administrative capacity? Or is it a "fragile" situation?

How much capacity is there to make and implement public policy? (Rules of the game, section 1.3.2 will be especially relevant). Are rules of the game highly personalised, or more institutionalised?

How do political competition, and relationships between politicians and investors affect the scope for change? Do they entrench the monopoly power of dominant players, or support constructive bargaining (search for compromise) around common interests in nurturing economic growth?

Do political elites have incentives to deliver public goods? (Think about the distribution of power, the institutional capacity of the public sector, and processes of political competition). Are they able to make credible promises to voters to deliver public goods?

What incentives / opportunities are there for different interest groups to mobilise (for example taxpayers, business groups, international organisations and firms as well as civil society organisations)? Do they have potentially shared interests in demands for public goods? How far do their interests overlap with those of the EC?

How far do prevailing public attitudes support reform of public institutions or policies?

What "key trends" might increase pressure for positive change over the medium term? What short-term factors might provide entry points or triggers for change?

This section should be read in conjunction with section 4 of the main concept paper ("Adding value through political economy analysis"). It brings political economy analysis together with other EuropeAid guidance covering EU principles, country strategy and programming,

design of sector programmes, policy dialogue and risk management. There are three broad areas of enquiry:

- What lessons have been learned from previous EU assistance and from other donors and international business or development institutions in the country concerning the interface between political economy dynamics and development assistance.
- How can EU development assistance engage effectively with political economy dynamics in order to meet strategic objectives of the EC and the country
- How can political economy analysis assist throughout the programme and project cycle in achieving more sustainable results (ex. policy dialogue, programming, design, monitoring and evaluation, resource allocation, capacity development, cross-cutting issues management, and risk management)?

1.6.1 Applying political economy analysis to lesson learning.

Standard approaches to monitoring and evaluation may not have taken political economy factors into account. They can therefore usefully be supplemented by some additional questions (which can be pursued as necessary in greater depth through sector level analysis).

Questions to consider include:

To what extent does political economy analysis help explain successes and failures of past and present development interventions across different sectors? How can this analysis be useful in the future and how can the analysis be mainstreamed into EUD professional thinking? What systems are needed to support this type of analysis and knowledge management?

Based on the political economy analysis, have past or current interventions been overambitious or otherwise inappropriate in relation to the country context? Have they targeted the most appropriate champions and support groups? Were opportunities and constraints well defined and well analysed? Were the necessary conditions in place to enable the interventions to have a good chance of success? If it were to be re-done, how would strategies and plans have changed with the knowledge gained by the use of PEA?

Looking at both short-term outcomes and longer term, cumulative impact: Have EU interventions produced value added or inadvertently done harm? How can this be mitigated in the future?

1.6.2 How could EU development assistance engage effectively with country level political economy dynamics?

This section prompts the analyst to apply political economy concepts to thinking about the role of EU development assistance (see section 2.2 of the main concept paper). The underlying assumption is that development happens through local political processes of bargaining and compromise between different actors. Positive change can occur when local actors are able to identify common interests and negotiate ways to pursue them. Over time, these processes can result in the creation of a wide range of public goods – for example sustainable increases in economic growth, better management of environmental and cultural heritage for future generations, universal access to basic services, protection of fundamental

freedoms, and so forth. Donors can have an impact on these local political processes (positively or negatively), but as external players there are limits to their influence. Development interventions are more likely to produce positive, sustainable results if they are based on a good understanding of what is motivating key actors within government, the productive sector and other groups in society, and seek to strengthen incentives and capacity for constructive interaction. For example donors may have a role as facilitators, enablers and conveners, as well as suppliers of finance and technical assistance. This section prompts analysis of how donors can engage more effectively to support local collective action for development, in what sequence and with what players.

Questions to consider might include:

Sector by sector, policy domain by policy domain, how much influence (and how much leverage can be brought to bear) can the European Commission have in relation to supporting compromise-seeking for development in the social and economic spheres? What is the source and legitimacy of that influence/leverage (aid finance, EU market power, expertise, trade relations, enlargement negotiations, diplomacy)? How are EU interests and objectives for development assistance perceived by different local actors? Are they seen as legitimate?

What scope might there be to enhance such influence/leverage through better complementarity and coordination of EC assets and processes? (For example by increasing coherence between development, commercial and diplomatic objectives; by adjusting language and behaviour; by investing more in long-term, indirect strategies to influence public attitudes and policies).

Are there actual/potential overlapping or conflicting interests between the EU's development objectives, and interests of powerful local actors? (See in particular the political economy analysis on distribution of power).

In addition to DEU influences and actions, are there business or civil society institutions in the EU that can provide leverage if they are brought to bear? How would this be done?

Has the EC dealt with the private sector from a business perspective to the extent that it is seen to be a legitimate and knowledgeable partner? Does it speak the same language (of business)?

1.6.3 Applying political economy analysis to country programming and design of interventions.

This section should be used in conjunction with section 4 of the main concept paper ("Linking analysis and action"), and sections 1.6.1 and 1.6.2 above.

Questions to consider might include:

Do proposed approaches to policy dialogue take sufficient account of the values, perception and interests of dialogue partners? Are they based on a politically salient narrative that is likely to engage dialogue partners?

Is the National Development Policy/Strategy owned by significant local actors and interest groups? Which ones? Are there important groups that are disengaged, or opposed? Does this provide a sufficient basis for EC programming?

Is the programming response strategy and objectives and timelines set out in the National Indicative Strategy realistic in relation to the context for reform? Do they represent best fit (ie politically and technically feasible approaches that are relevant to the context and the need) rather than best practice (i.e. the most effective decisions, strategies, systems and processes that will guarantee operational success but may not be sustainable because of Social or economic dynamics) ? If there is a disconnect, how can the EC rectify the situation?

Based on the political economy analysis, has the choice and priority attached to different sectors and themes in the country strategy and programme been appropriate? Has the strategy for dealing with the choices reflected the conclusions of the PEA? Does programme or project design enhance opportunities and incentives for stakeholders to mobilise and engage with public policy-making? Does it strengthen the potential for constructive state-society bargaining? Does it build on existing, legitimate, locally rooted institutions?

Do proposed aid modalities support or undermine rules-based behaviour (for example budgeting and policy processes)?

Does proposed support for non-state actors strengthen or undermine incentives to build a membership base, and to mobilise politically?

Do risk management frameworks take sufficient account of likely impact of donor interventions on political economy dynamics, including longer term, indirect impact? Do they consider actions to mitigate these risks?

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