



## **October Gallery Political Economy Workshop,**

**9 December 2011**

### **Background and objectives**

This was an informal event that brought together researchers and consultants on the political economy of development to exchange ideas and experience, in order to strengthen the operational relevance of their work. A list of participants is included at the end of this document.

The meeting was inspired by a commentary by Merilee Grindle<sup>1</sup> entitled "Governance Reform: the New Analytics of Next Steps", which posed two challenges: what evidence do we have that using political economy analysis has helped policymakers better identify important, context specific constraints to development, and appropriate "next steps" to address them? Can anything be learned from individual cases that is relevant to others? Can we move beyond "context matters" to finding some more general guidance on how to promote institutional reform?

The meeting considered eight cases, presented by participants, of interventions that appear to have advanced particular development objectives by engaging effectively with local political economy dynamics to help address collective action problems. The aim was to consider the kind of collective action challenges involved, the mechanisms through which interventions were able to engage effectively, and why they appear to have worked. More specifically, the aim was to identify:

- Some compelling examples of how an understanding of political economy dynamics can help policymakers find a way forward even in very challenging contexts;
- If possible, a broad typology (albeit on the basis of a very limited number of cases) of different kinds of donor approaches that might work in different circumstances;
- A link into a more ambitious discussion, being pursued by the ODI's Africa Power and Politics Programme among others, about what kind of policy and institutional

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<sup>1</sup> In *Governance: An International Journal of Policy, Administration and Institutions*, July 2011, Vol 24 No 3, pages 415-418.

change is most likely to support development, on the basis of which to prioritise different kinds of contextually sensitive approaches. This might be the topic for a subsequent workshop.

Highlights from the discussion are presented below, followed by brief summaries of the cases from which they were drawn.

## **Highlights from Discussion**

1. Country level political economy analysis that focuses on big structures and "rules of the game" is a useful starting point for identifying the broad scope for change (examples from the cases include the impact of the resource curse in Nigeria; the configuration of patronage politics in Cambodia and Malawi; and the historical context in Indonesia). This level of analysis can help induce realism; and help identify opportunities to "work with the grain" (examples include the law and justice programme in Cambodia that identified opportunities arising from the shift from elite to mass patronage, and the social protection programme in Indonesia that built on financial, reputational and electoral pressures).

2. However the cases also illustrate the need to move from exploring big structures and rules of the game to focusing on individual actors and the choices they make. This provides the basis for thinking about the "room for manoeuvre" within a difficult context, and the scope for outsiders to help broker or facilitate institutional change that can realign interests, and create (new) common interests between key actors. Sometimes quite small changes can have potentially big impact. Examples from the cases include PrOpCom in Nigeria which changed relationships and incentives in the fertiliser market; TradeMark East Africa which brokered new institutional arrangements that reduced opportunities for corruption and offered benefits to key stakeholders; and export expansion grants in Nigeria where small but potentially significant scope was found for policy change, despite powerful opposition.

3. Donors need to be cautious about imposing their own conceptual models and language that ignore the realities of local context, and get in the way of finding informal local arrangements and relationships that might offer the basis for effective collective action. An example is the rights-based language surrounding scorecards in Malawi. The Cambodia case also

highlighted the trap for donors of "aligning" programmes with overambitious partner country rhetoric.

4. Virtually all the cases highlighted the critically important role played by well informed, politically savvy, well networked local actors and donor staff who were able to build relationships of trust between outsiders and insiders, to spot opportunities and respond flexibly to them. There is a case for avoiding over-design of interventions and giving competent local staff freedom to innovate. The cases also pointed to the need for long start-ups, and long-term engagement (for example PrOpCom in Nigeria, watsan in Senegal); the value of working at arms-length from donor agencies (for example TradeMark East Africa); and the need for donors clearly to identify their role (often to broker, facilitate or catalyse change rather than attempt to orchestrate it).

5. Many cases highlighted the important role of information and evidence in shifting public perceptions and incentives (examples included Ausaid's input to Indonesia's social protection programmes, and the role played by game-changing research in catalysing support for the PrOpCom programme). However the way such evidence was disseminated, and by whom, influenced uptake. The cases also pointed to the importance of reputation in shaping behaviour and policy choices (for example, in Indonesia, Cambodia, and Senegal).

6. It was noted that none of the cases applied political economy analysis to considering "big" current political issues, or the possible role of international action in helping to shift incentives (an example being the impact of the International Criminal Court in Kenya). This was a reminder of the potential power of "international drivers" to influence interests and decision making of individual actors.

## Case studies

### **The first three cases explored approaches to finding common interests between politicians and development actors in Nigeria**

#### **1. The resource curse in Nigeria (William Kingsmill)**

##### Why was a PE approach used?

DfID recognised through its early drivers of change studies and from the “resource curse” literature the central importance of natural resources (especially oil) in shaping the development context in Nigeria. It used political economy analysis (PEA) to understand the impact of the resource curse on economic growth, and on social and political development. This analysis has been applied at a macro level to identify national and state level priorities, and at a programme level to identify approaches that could more effectively engage with local political economy incentives.

##### What were the key PE dynamics in play?

These included:

- The impact of the resource curse on the economy, in particular its impact on the macro economy including a lack of economic diversification, and the damaging impact of volatility, with knock-on effects that help explain weak political incentives to nurture economic growth and deliver basic services.
- The impact of oil in creating incentives and opportunities for looting, with consequences including conflict, corruption and theft. Oil is a point source providing motives and means for political and economic elites to capture benefits, and for insurgents to organise.
- The impact on accountability - especially the damaging effect of access by political elites to "unearned" revenue - weakening the need to bargain with citizens over taxation, to create a social contract around service delivery, or to build public institutions to collect and administer tax revenue.

##### How did policymakers / donors seek to engage with these dynamics, what were the outcomes and reasons for success / failure?

DfID applied PEA to identify priority needs, including measures to strengthen public institutions; to encourage private sector growth and economic diversification (and so reduce the influence of government on the economy); and to tackle the impact of the oil economy on accountability, and looting. It sought to engage with PE incentives through an issues based approach (identifying specific issues around which it might be possible to mobilise common interests between different interest groups, including civil society, business and government); through increased transparency of oil revenues (EITI, revenue transfers from Federal to state governments); and by beginning to build a

social compact around access to services, seeking to change expectations over the longer term.

## **2. Pro-poor opportunities in commodity and services (PrOpCom) programme, Nigeria (Alex Duncan)**

### Why was a PE approach used?

PrOpCom was a programme (2002 to 2011) intended to transform the way that a range of rural markets work (for inputs, notably fertiliser and tractors, products (rice) and services (finance).) Its approach inter alia involved (a) creating new linkages between market players to build on shared interests, and (b) finding ways of leveraging wider change by means of interventions that were necessarily tightly focussed. The ability to understand and affect the incentives influencing the behaviour of market players, as well as government at Federal and State levels, was therefore critical in determining the programme's success and failure.

### What were the key PE dynamics?

The government had for years been overwhelmingly the main customer for fertiliser and tractors, removing any incentive on the private suppliers to sell to the final user, and to establish distribution and service networks. Massive corruption in the fertiliser market has for years hindered reform: a game-changing study commissioned by the programme found that only a very small proportion of the fertiliser reached the intended beneficiaries, the farmers, with c. 89% lost in the internal stages. The programme also found variation among States in the extent to which those with power had an interest in the reforms that the programme was encouraging. .

### How did policymakers / donors seek to engage with them, what were the outcomes and reasons for success / failure?

In the markets for both tractors and fertiliser, the programme was able on a pilot basis to develop new market models, linking existing players, orienting suppliers to end-users, inducing them to establish new rural networks and agents, and bringing commercial banks (on a limited scale so far, but significantly) into serving agriculture, a sector they have hitherto avoided. The fact that the Federal government (and some states) in 2011 announced a drastic reduction in the role of government in procuring fertiliser is potentially very significant (though all will depend on whether this is implemented). There are many reasons for this outcome (so attribution is difficult), but the programme's activities are among them. The (provisional) success of the programme was based in good measure on the fact that it was led by local project staff with a detailed understanding of, and sustained engagement with, key players and their interests: donors played a brokering / catalysing role. The programme created a shift in incentives driven by new market arrangements that provided smaller margins but larger volumes that benefited a larger number of suppliers, in place of high

margins captured by a limited number of suppliers. It also had a tightly-defined impact logic that guided implementation and measurement of progress.

### **3(a). Budget realism in Kaduna state, Nigeria (Gareth Williams)**

#### Why was a PE approach used?

To address a specific problem identified by donors. State budgets in Nigeria are always highly inflated, undermining fiscal discipline and creating space for large-scale corruption. Because most resources for Kaduna state come from federal oil revenues, it is quite simple to estimate the resources available to the state government (about Naira 80 bn). The 2010-11 budget was a particularly bad case of lack of realism. The budget as first announced was N196bn.

#### What were the key PE dynamics revealed by the analysis?

Everyone has an incentive to pad the budget with pet projects - particularly the governor, who is able to exercise discretion on an item by item basis after it becomes clear that the budget is un-financeable. This concentrates a lot of power in the hands of the governor, and circumvents formal institutions that could provide checks and balances. Generally speaking, the bigger the gap between the proposed budget and the resources actually available, the more personalised and the less institutionalised public financial management becomes.

#### How did policymakers / donors seek to engage with them, what were the outcomes and reasons for success / failure?

DFID and its project partners decided to take this on through a tripartite engagement. DFID used its diplomatic channels to engage with commissioners in the state. The SPARC project engaged with the civil service and media to highlight the problem. And the SAVI project supported civil society advocacy groups. The first revision of the budget made some technical improvements including the removal of duplicated and redundant items. This brought the budget down to N148bn. The State House of Assembly then jacked the budget back up to a finally approved N165bn. DFID and its programmes thus achieved some success in reducing the budget, but the final budget was still far from realistic. DFID mainly succeeded in addressing technical problems with the budget. The politically motivated projects remained (e.g. Kaduna Millennium City, the 400 bed specialist hospital). There has been little progress in institutionalising improvements to the budget process, which occurred through one-off application of pressure. There were also costs. DFID projects have been affected by accusations of political interference. SAVI has since found it much more difficult to work in the State House of Assembly. Radio phone-in programmes in the state have been banned following the on-air embarrassment of politicians during the budget episode.

### **3(b) Export Expansion Grant, Nigeria (Gareth Williams)**

#### Why was a PE approach used?

To strengthen design and implementation of a development intervention. This relates to recent work with the GEMS Meat and Leather Project in Kano, Nigeria. The Export Expansion Grant provides exporters with a payment of up to 30% of the value of their exports. It is provided as a voucher which can be redeemed against import duties or traded with other importers for cash. The grant was ostensibly set up to promote exports, whose competitiveness in Nigeria has been harmed by the exchange rate effects of oil. However, in practice the grant has become an opportunity for rent seeking and distorting markets to the benefit of powerful actors.

#### What were the key PE dynamics revealed by the analysis?

In the leather sector only the largest tanneries are eligible for the EEG. The largest tannery (Mamoudia) uses its political connections to ensure that it is paid immediately whereas other tanneries often have to wait several years. Mamoudia has been using the cash windfall to buy up most of the available skins in northern Nigeria, thus depriving smaller tanneries of their raw material. There have been winners and losers. Winners have been the larger tanneries, but also livestock owners, who have seen the price of skins increase (this may not be sustained if Mamoudia manages to exploit a monopsony position). Losers have been the smaller tanneries, and the finished leatherwork industry, which finds itself unable to buy Nigerian leather in the quantities it needs. Almost all Nigerian leather is exported to qualify for the grant and leatherworkers in Nigeria find themselves having to import Turkish leather.

#### How did policymakers / donors seek to engage with them, what were the outcomes and reasons for success / failure?

The initial political economy analysis undertaken by the GEMS project recommended non-engagement with the EEG because such powerful interests lay behind it. However a recent workshop did identify potential room for manoeuvre in advocating reform. This could include: reductions to the size of the payment; ensuring equal treatment of applicants (and payment terms); and, as a condition for qualifying for the EEG, requiring a small portion (say 5%) of finished leather to be held back for the domestic market instead of being exported. The last of these suggestions may offer the best fit with GEMS' work as it would directly assist the finished leather goods industry supported by GEMS. There may be political traction in this proposal which would be seen to be supporting Nigerian industry and value addition, and would not involve a major loss to exporters.

#### **4. Finding feasible approaches to law and justice work in Cambodia**

(Presenter Marcus Cox)

##### Why was a PE approach used?

In this case, PEA was used to improve an AusAid sector programme, specifically to identify more locally feasible approaches to supporting law and justice work. The programme had sought to align its objectives with a government programme that set very broad, ambitious goals designed to attract donor funding rather than to stimulate reform, with very marked differences in outcomes between different sub-programmes. Some progress was made with prisons and community justice, but none with the Ministry of Justice (a relatively powerless counterpart that had been stripped of resources), and little with the police (interested in acquiring technical skills, but not in improving democratic accountability).

##### What were the key PE dynamics revealed by the analysis?

The judiciary and police facilitate various forms of predation by elites, which sometimes use reform as a cover (e.g. using forestry reforms to eliminate rivals in the logging industry). An apparently monolithic state structure disguises factional struggles which create insecurity - accelerating predatory practices, and making the system unstable and more resistant to reform. There is political competition in the form of a highly evolved system of bidding for / sharing out posts. All positions are bought and sold as rent-seeking opportunities, and public sector salaries are deliberately kept below subsistence level. However, a significant political shift has taken place, reflecting a generational shift in post-war leadership. Although still effectively a one-party state, a transition is taking place from elite patronage benefiting a small number of individuals to a kind of mass-based patronage where the regime has an interest in portraying itself as the 'meritorious benefactor', and where predatory behaviour (for example by the police) is becoming less acceptable.

##### How did policymakers / donors seek to engage with them, what were the outcomes and reasons for success / failure?

The PEA suggests that most of the earlier governance ambitions are unachievable. But in the law and justice field, the political shift creates opportunities to work with the grain: there is a populist-patronage incentive to increase the professionalism of the police, crack down on the most overt predatory behaviour, and improve community relations. Based on the analysis, the programme was re-oriented to focus on community-police interactions and other community-level initiatives.

## **5. More than just demand - learning from experiences with a community scorecard approach in Malawi**

(Presenter Dan Harris )

### Why was a PE approach used?

In this case, it was used by ODI to evaluate a pilot social accountability programme in Malawi using community scorecards to improve public service delivery. ODI looked at how well the programme operated in the local context seeking to explain its impact, and some (marked) variation in performance between districts; to evaluate the sustainability of any improvements; and to draw lessons for future programming.. The programme was supported by Plan UK / Plan Malawi.

### What were the key PE dynamics revealed by the analysis?

The country level dynamics included the importance of patronage structures, and the centralisation of power around the presidency, in shaping the distribution of resources and the provision of services. Local service delivery is focused more on demand from the centre than from citizens. (Supposedly) community-focused actors, such as traditional authorities and district chiefs, are paid by, and are increasingly beholden to, the ruling party - and as a result are often seen as compromised or politicised. There is a tradition of community provision. But even where local impetus for improving services exists, it is often directed towards securing them for discrete groups rather than creating fully public goods. Uncertainty stemming from various shocks, as well as a patchy, incomplete process of de-centralisation, is also a factor. This wider context raises questions about the underlying assumptions on which the community monitoring programme was based, including the aim of empowering citizens to make demands for better services, and the incentives and capacity of government to respond.

### What were the outcomes of the evaluation, and reasons for programme success / failure?

There were some positive examples of improvements in services, for example arising from construction of teachers' housing and changes in market management. However these were not driven by citizen pressure on government, but by local community action to fill gaps in service provision, stimulated by the information and forums for engagement that the project created rather than indicating any fundamental shift in state – citizen relationships. . The rights based language used by the programme was therefore unhelpful when it came to explaining or building on project successes. The evaluation helped to change thinking within Plan UK and Plan Malawi about processes of change, emphasising both the need to build on local informal community relationships, and to seek opportunities to work with key stakeholders to address more systemic issues as political economy constraints allow.

## **6. The political economy of policy dialogue and social protection in Indonesia**

(Presenter Taylor Brown)

### Why was a PE approach used?

This case was part of a broader review of Ausaid's approach to policy dialogue in partner countries. It looked at the National Team for Accelerating Poverty Reduction (TPN2K), a government initiative, housed in the Vice President's office, aiming to improve social protection schemes in Indonesia. AusAid provides key inputs including policy analysis and evidence to help the President and Vice President build public consensus around social protection measures. .

### What were the key PE dynamics revealed by the analysis?

The case explored the Indonesian context and the history of social protection programmes that help explain their popularity, their importance as a source of decentralized patronage, and the origins of un-coordinated, overlapping, poorly targeted and costly programmes (notably fuel subsidies which absorb more of the budget than GoI spending on health and education combined ). The case highlighted potential pressures for change including coalition politics, an increasingly vocal parliament pressing for poverty-reduction, and a strong tradition of technocratic policy making that made key stakeholders open to evidence-based approaches.

### How did policymakers / donors seek to engage, what were the outcomes and reasons for success / failure?

The case highlighted opportunities to "work with the grain" of local political economy dynamics, including a) the potential (populist) vote winning appeal of social protection, b) the financial imperative for the government to come up with a politically viable alternative to its costly fuel subsidy programme, and c) the reputational pressures arising from Indonesia's middle income status, its enhanced engagement with the OECD and aspirations to play a regional role. Important aspects of AusAid's success included staff who understood the political context, were well networked and trusted, and capable of responding flexibly as opportunities for influence arose.

## **7. World Bank facilitation of watsan reform in Senegal**

(Presenter Sabine Garbarino)

### Why was a PE approach used?

To address a particular problem, notably that sanitation investments are often not given priority, or not targeted towards the poor. Senegal was one of four country case studies that formed part of a larger global study of the World Bank's Water and Sanitation Programme. It used the Political Economy of Reform Framework, developed from PSIA work, and aimed to offer practical lessons for World Bank practitioners.

### What were the key PE dynamics revealed by the analysis?

Sanitation is less politically high profile than other investments including water, and is not seen as a priority by the urban poor. Private sector investment in water was secured only after a strategic decision was made to separate it institutionally from sanitation. Sanitation has acquired a higher profile since 2000, with increasing access in peri-urban areas, driven in part by reputational concerns. However pit latrines remain politically "unsexy", with engineers preferring big sewerage projects (this appears to be a technical issue in most cases rather than the product of corruption per se).

### How did policymakers / donors seek to engage , what were the outcomes and reasons for success / failure?

The World Bank has had continuous, long term engagement in the water and sanitation sector. Its local staff were well networked with key players, and thus able to build relationships of trust and act opportunistically (a national resident advisor, formerly of the Ministry of Water and Sanitation, played a key role). The Bank acted as a facilitator rather than as a broker, providing ideas and know-how, and translating a general will for reform into action. Formal workshops (and their timing) were important in overcoming scepticism from the private sector and some opposition from the state-owned water utility, but informal relationships were critical to key decision making. The Bank also helped negotiate a clever performance contract that set out the right incentives.

## **8. Brokering change in trade facilitation systems in the EAC**

(Presenter David Booth)

### Why was a PE approach used?

To help resolve institutional barriers and support trade facilitation in the EAC. . Funded by DFID, Trademark East Africa (TEA) is a non-profit company that operates as an arms-length entity, independent of donors, to find ways of addressing collective action problems that impede trade. The particular case concerned the replacement of a transit bond system covering goods shipped from the coast to the interior, which was responsible for major import duty evasion.

### What were the key PE dynamics revealed by the analysis?

An institutional logjam was identified with the system for collecting customs duty on goods transported from the coast to countries in the interior. The current system of transit bonds for each country is inefficient, results in loss of revenue, and encourages fraud. As a solution, TEA is piloting a new trade facilitation instrument (ASSET): duties and taxes are paid into a bank account at the point of entry; revenue authorities claim duties from this account, while the funds also serve as transit bond/guarantee.

How did policymakers / donors seek to engage , what were the outcomes and reasons for success / failure? The alternative system was devised through brokering relationships between large numbers of players, some of whom had an interest in blocking change, while others stood to benefit from the new system. The latter included revenue authorities (which got quicker, more reliable access to revenue, and so reduced coercive behaviour); insurance companies (which had been victims of under-pricing and faced coercion by revenue authorities); and banks (that stood to win new business). Success factors included effective local personnel in TEA with relevant experience in customs, ports, revenue authorities, banking and law (including a former deputy commissioner of revenue in Kenya). They were well networked and able to engage effectively in negotiation with key stakeholders.

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