



POLITICAL ECONOMY AND GOVERNANCE ANALYSES OF DECENTRALISATION

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Per Tidemand

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1. INTRODUCTION

The Danish public sector strategy "Effective and Accountable Public Sector Management – Strategic Priorities" is centred on three components: (1) anti-corruption, (2) local governance and service delivery and (3) public finance management. A key rationale of the strategy is to strengthen Danida competency and capacity within the three focus areas of the strategy. E-learning courses exist for anti-corruption and public finance management, while local governance and service delivery resource material remains scattered.

In order to improve the quality of Danish support to decentralisation reforms and approaches for improved local governance and service delivery it has been decided to develop a set of learning materials on decentralisation reforms.

The learning material is synthesized in an overall "Source Material on Decentralisation and Improved Service Delivery for the Poor" while separate issue papers have been developed on:

1. Political Economy of Decentralisation,
2. Fiscal Decentralisation and Sector Funding
3. Draft Note on Health Sector Decentralisation,
4. Draft Note on Environmental Sector Decentralisation,
5. Draft Note on Water Sector Decentralisation.

The objective of this particular paper is to review international literature on analysis of politics of reform and synthesise findings relevant to support decentralisation reforms.

The rationale for the paper is the increasing acknowledgement of the importance of "politics and governance" in development work generally and in public sector reforms more specifically. Development is a political as much as a technical process: reforms and changes all generate winners and losers, and prevailing power and incentive structures determine what can be achieved and what cannot. Danida has recently issued a general guide to performing a simple analysis of political economy and stakeholder interests¹.

The paper is structured into the following chapters:

- ✓ Overview of the general approaches for political economy and governance analyses,
- ✓ Presentation of selected approaches for political and governance analyses at sector level,
- ✓ Discussion of how insights from analyses can be translated into practices,
- ✓ Review of existing political economy and governance approaches for decentralisation reforms,
- ✓ Conclusion: towards good practices for political economy and governance analysis of decentralisation reforms.

¹ Based on the consultancy: Boesen A/S and Development Advice and Production 2009: Applying Political Stakeholder Analysis – How can it work? A report for Ministry of Foreign Affairs Denmark, www.danidadevforum.um.dk/NR/rdonlyres/CD718ADB-77F4-4A36-9251-71EF50BBF530/0/Stakeholder_AnalysisReport.doc. Subsequently a guide has been issued in draft form: Ministry of Foreign Affairs, Danida, Denmark, Guide to Political Economy and Stakeholder Analysis at Sector Level – draft October 2009.

2. OVERVIEW OF GENERAL APPROACHES

This chapter briefly introduces the basic definition of Political Economy and Governance Analysis (PEG); it provides references to synthesis of the literature and websites with detailed discussions and tool boxes, etc. The chapter also summarises key experiences from the early years of applications of PEG.

2.1 What is Political Economy and Governance Analysis?

Political economy and governance (PEG) analysis is a relatively recent concept applied by development agencies as an approach for informing aid strategies and programmes, but with long standing traditions in social sciences². The most common way of approaching political economy in development work tends to be from either an economic perspective using rational choice-based models, or more from a political scientific perspective through power-based models and review of stakeholder incentives. The latter approach characterises all PEG work.

PEG analysis is, when applied in relation to the planning and implementation of aid strategies and programmes, in particular concerned with the following issues³:

- ✓ The interests and incentives facing different groups in society (and particularly political elites), and how these generate particular policy outcomes that may encourage or hinder development;
- ✓ The role that formal institutions (e.g. rule of law, elections) and informal social, political and cultural norms play in shaping human interaction and political and economic competition;
- ✓ The impact of values and ideas, including political ideologies, religion and cultural beliefs, on political behaviour and public policy.

2.2 Why PEG Analyses?

PEG analyses are intended to provide insights into the feasibility (and likely impact) of reforms and institutional change and are therefore central to the design of development interventions. Much of the interest in political economy issues has emerged from the particular difficulties of donors when it comes to productive engagement in states in fragile situations. These situations exemplifies in an often tragically obvious manner how power and politics shape agendas which may result in civil wars and regional conflicts – and which in other, less fragile situations still shape outcomes of reform processes. However, it should also be emphasized that for development agencies, PEG analysis may also require donor agencies to act “more politically” – yet donor agencies are bound by their own internal incentives that may include maintaining expenditure levels according to pre-agreed budgets, etc.

² When the concept “political economy” was originally applied in 1615 it referred to a discipline later largely renamed as “economics”. Today the concept is applied in social sciences for a very wide range of disciplines that broadly analyse economic and political behaviour but do so through a variety of approaches and based on quite different underlying assumptions. The term is also frequently applied in relation to neo-Marxian approaches within geography, sociology and anthropology. See e.g. http://en.wikipedia.org/wiki/Political_economy

³ DfID: Political Economy Analysis - How To Note – A DfID Practice Paper 2009. <http://www.gsdrc.org/go/topic-guides/political-economy-analysis/tools-for-political-economy-analysis>

Before venturing into a discussion of the various approaches and tools for PEG analysis it is useful to reflect on the rationale for application of such analysis. This can be stated in general terms such as: "Political economy factors, stakeholder interests and the available capacity to change determine if and how a sector will develop its performance. Overlooking these aspects when working with sector development – either as a civil servant, member of an advocacy or lobby group, or as an aid official delivering sector support – is likely to lead to poor design of interventions and poor outcomes".⁴

However, the rationale for application of PEG analyses must also be rooted in an understanding that development interventions very likely require a more "political" direction⁵. As formulated in the recent DfID Strategy⁶: *"The UK will increasingly put politics at the heart of its action. We need to understand who holds power in society so we can forge new alliances for peace and prosperity...In the future, understanding political dynamics will shape more of our programmes. This will change the decisions we make about how we spend our aid budget, what we want to focus on and who we want to work with"*. This represents a major change from past practice, when development agencies frequently saw their role primarily in terms of the provision of financial and technical assistance to promote particular agendas around governance, growth or service delivery. The tendency was to dispense advice on what 'should' be done, without considering adequately the constraints and opportunities created by the political environment. Political economy analysis, in contrast, encourages donors to think not only about what to support, but also about how to provide support, and to whom? Taking political feasibility more explicitly into account.

PEG analyses should ensure that decentralisation reforms are implemented in a more contextualised manner and avoid situations whereby blueprint models for decentralisation are sought exported to any country irrespective of its political context.

Box 1: Avoid Export of Blueprints for decentralisation

Most fiscal analysis of developing countries is on the following pattern: the academic literature is drawn on to construct a model fiscal system; the existing situation in a particular country is examined to determine how it diverges from the model; and a fiscal reform is then proposed to transform what is into what ought to be. This approach is deficient because it does not require sufficient detailed examination of existing reality to ensure that the assumptions postulated in the model are congruent with reality, that the recommended changes can in fact be implemented, or that, if implemented, they will in fact produce the desired results. In contrast, my approach is first to study in detail exactly how the existing system works, and why it works that way, in order to have a firm basis for understanding what changes may be both desirable and feasible. My emphasis has thus always been more on what can be done than on what should be done. (Weingast 2006)

⁴ Boesen et al. 2009 op cit.

⁵ As Smoke and Kaiser (2009) are advocating, the fact that analysis may show resistance from some stronger stakeholders to reforms, does not mean that support from DPs cannot influence the balance and bring some results, but the point is that is important to be aware of these factors.

⁶ DfID: Eliminating World Poverty: Building Our Common Future. <http://www.dfid.gov.uk/About-DFID/Quick-guide-to-DFID/How-we-do-it/Building-our-common-future>

2.3 An Emerging and Expanding Field

A large number of approaches and tools for political economy and governance analyses have in recent years been developed although the area is still considered an emerging field. An extensive and updated overview of tools and approaches can be found in the "Political Economy Analysis Topic Guide" of the Governance and Social Development Resource Centre: (www.gsdrc.org/go/topic-guides/political-economy-analysis). Most of the general documentation referred to in this paper can be found on this website.

A number of reports have for various purposes synthesized the literature on PEG analyses and for readers who want a more extensive discussion of the specific approaches of individual aid agencies it is recommended to read these⁷ as a complete synthesis of various approaches is beyond the scope of this paper.

Initial analyses were primarily in the form of broad country analyses whereas lately emphasis has been more on development of appropriate approaches for sector specific analysis as further discussed in chapter 3. Some of the more widely cited country-level approaches are DfID's Drivers of Change, the Dutch Foreign Ministry's Strategic Governance and Corruption Assessment, SIDA's Power Analysis and World Bank Institutional and Governance Reviews (IGRs). Experiences have been evaluated e.g. by OECD (2005).

The main conclusions that arose from these first, mainly country based, analyses were that they are useful and evidently demonstrated the need for an even deeper understanding of the political dynamics of development at both country and sector level. However, significant challenges were also identified. One of the most critical challenges was how to translate the analysis into operational recommendations.

Subsequently, more recently there has been more emphasis on development of analytical approaches and tools for in-depth sector work as discussed in chapter 3. There are also increasingly internal donor discussions on the implication of such analysis on their mode of work – including possible conflicts between a more political engagement by donors and the general aid effectiveness agenda and related donor commitments to aid harmonisation, country ownership, etc. This was e.g. expressed at the recent launch of the DfID How-to-Note on political economy analysis⁸:

"Commitments to the **aid effectiveness** agenda may limit the donors' ability to work in a politically informed way and take forward some of the implications of political economy analysis. Matching up these two agendas particularly in fragile states is one of the frontiers of the current development debate including within the OECD DAC".

⁷ Particularly recommended: OECD-DAC, (2005). 'Lessons Learned on the Use of Power and Drivers of Change Analyses in Development Co-operation' and David Edelman 2009: Analysing and managing the dynamics of sector reforms: a sourcebook on sector level political economy analyses, ODI Working Paper 309, also OECD 2008a, OECD 2008b, OECD 2009a and b.

⁸ <http://www.odi.org.uk/events/report.asp?id=1929&title=thinking-politically-does-this-mean-dfid-wider-development-community>, Launch of DfID How-to-Note on political economy analysis - Event Report ODI – 23 July 2009

3. SELECTED APPROACHES FOR PEG AT SECTOR LEVEL

Sector approaches for PEG analyses at sector level were to a large extent developed in quest for approaches that would lead to more operational guidance. This chapter presents three approaches developed respectively by (1) DfID/ODI, (2) Danida and (3) the World Bank. The three approaches have been selected because they illustrate the variation in approaches and also represent some of the major players in development assistance (Danida approach is to a large extent based on the recent Europe Aid Toolkit for Capacity Development⁹).

3.1 DfID/ODI – 2005

In 2005 the Overseas Development Institute developed a framework designed for use by DfID country offices for political analysis of specific sectors and policy arenas. Ultimately the objective was to “support pro-poor change processes more effectively”¹⁰.

Compared to earlier country level analyses it is argued that deep sector/policy analysis facilitates a better understanding of entry points and helps staff to design incentives for maximum impact on development outcomes. The framework is fairly explicitly targeted at “donors” and aims to enhance donor understanding of how historical legacies, processes of change and structural features influence the relations between institutions and actors and, in turn, the policymaking and implementation process. It builds on the earlier experiences with DfID’s Drivers of Change approach.

The framework suggests guidelines for political analysis in three stages: (a) a historical/foundational country overview; (b) organisations, institutions and actors; and (c) operational implications. The framework’s three stages are not linear or discrete; staff will need to revisit, reassess and reinterpret earlier information.

The framework starts with a broad/foundational country study. This examines: historical legacies and change processes; structural features and their influence; key actors and their roles; formal and informal institutions, including the relationships between actors and institutions; the significance of ideologies, values and power relationships; and key characteristics of the policymaking process and of sectors.

Stage two focuses on understanding how institutions and actors interact and seeks to explain differences across sectors, why organisations prioritise some policies over others and why different actors support or resist certain policy recommendations. This stage of the analysis looks at:

- ✓ Defining the sector (determining sector boundaries and mapping the players): Analysis should include ‘hidden relationships’ and actors who have, traditionally, received little attention (e.g. actors at sub-national levels, less organised structures, and institutions that are less acceptable

⁹ <http://capacity4dev.ec.europa.eu/toolkit-capacity-development>

¹⁰ Moncrieffe, J.M., and Luttrell C., 2005, 'An Analytical Framework for Understanding the Political Economy of Sectors and Policy Arenas', Overseas Development Institute (ODI), London. Available at <http://www.gsdrc.org/docs/open/PO58.pdf> - the above summary of their approach closely follows the synthesis provided on the same website.

but 'legitimate' and/or influential in different contexts). Identifying players and relationships is a continuous process.

- ✓ Intra-sector analysis (examining roles and responsibilities, organisational structure, management and leadership, financing and spending, incentives and capacity): Contending positions and differences in attitudes within and across sectors, and between national and sub-national levels may mean, for example, that spaces for pro-poor alliances exist in one sub-department but not in another. Deep intra-sector analysis is crucial for identifying actual, and potential, blocks and entry points as well as for designing appropriate incentives.
- ✓ Relationships between players (at the supranational, national and sub-national levels): This analysis aims to reveal varying, and possibly contending, interests, the challenges of multiple obligations and expectations, power structures/relations and their consequences, and potential niches for engagement across organisations and sectors.

The framework includes useful examples from various country analyses and several useful matrices and figures that can guide the analysis.

The third stage of the framework therefore focuses on operational implications, again in three phases:

- ✓ Defining objectives and expectations: What, given donor understanding of the context, their scope for influence and the role of other donors, should be the priorities for working in the sector? What objectives are feasible in the period available?
- ✓ Determining entry points: How does an understanding of the constraints, incentives and capabilities help to define which institutions, organisations and actors would be most effective in tackling particular problems?
- ✓ Identifying mode of support: Which strategy, or which different strategies within the same sector, could maximise the donor's leverage?

In the final section of the paper, some broader methodological considerations are very briefly presented regarding "objective of the research", time, budget, research team composition and considerations regarding partnership approach – whether to keep analysis confidential or develop the research in close partnership with government, etc.

3.2 Danida 2009

One of the key characteristics of the suggested approach is its strong emphasis on "country ownership" – in this sense it departs substantially from e.g. the typical DfID approach described above. Although the Danida paper leaves various options open, its implicit recommendation is to have country stakeholders to lead the analysis in order to ensure country ownership of decisions derived from analysis. In practice the approach is therefore to a large degree centred on participatory analytical tools that will include consultants as facilitators but not "authors" of the analysis.

Box 2: Key concepts for Danida 2009 PEG.

Sector development – for example in the health sector – takes place in a **context**, which includes interests, power issues, institutional and political factors. These kinds of context factors are in this guide referred to by the broad term “political economy”.

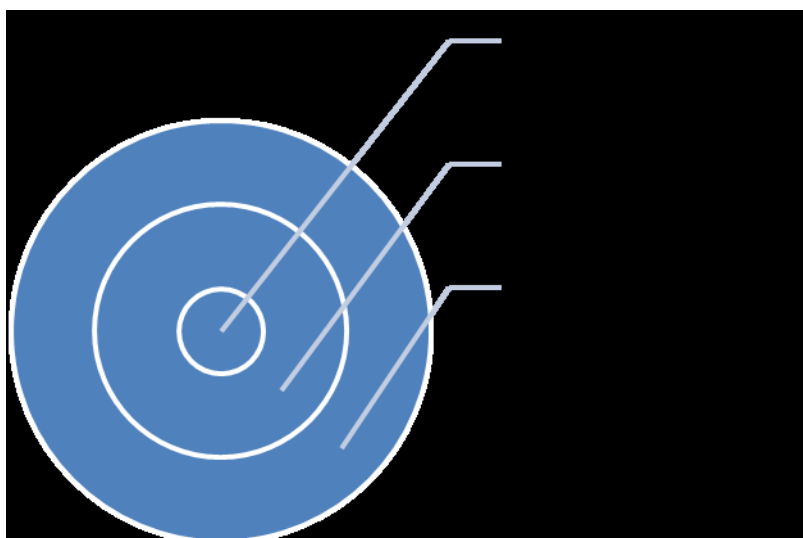
Different societal groups have different interests in e.g. delivery of health services, and they pursue their interest with the formal and informal means of influence at their disposal. They have a stake in the sector – and they are therefore referred to as stakeholders. They may be individuals, groups or organizations. They are actors in the **arena of change**.

“Change capacity” refers to the tangible and intangible resources that a person or group possesses when it comes to making specific **change processes** happen. A strong, well-connected manager is likely to have greater change capacity in her field than a marginalized, unorganized poor peasant.

Boesen and Development Advice and Production 2009 op. Cit.

The recommended analysis consider three main steps of analysis (1) Context factors, (2) the Arena of stakeholders and (3) Capacity to manage change processes as illustrated in figure 1 below.

Figure 1: Danida 2009: Main Steps of Analysis



The guide includes three sets of tools for three areas:

1. Political economy and context analysis
 - a. Five basic questions for dialogue and interview purposes
 - b. A visualization tool for simple mapping purposes
 - c. A more detailed scanning instrument for more in-depth work
2. Stakeholder Analysis
 - a. Five basic questions for dialogue and interview purposes
 - b. A visualization tool for simple mapping purposes
 - c. A more detailed scanning instrument for more in-depth work
3. Change Capacity Assessment

- a. Five basic questions for dialogue and interview purposes
- b. A visualization tool for simple mapping purposes
- c. A more detailed scanning instrument for more in-depth work

The key questions to be explored for each of the three areas are:

1. Political Economy and Context Analysis

- ✓ To what degree are formally adopted policies shaping the political agenda in the country, to what degree narrower interests of particular groups?
- ✓ To what degree are budgeted funds made timely available to sectors and largely spent as planned?
- ✓ Which incentives do public sector employees in general have to perform and deliver services, and which factors constrain their performance?
- ✓ Who is holding public sector organizations at different levels to account, and are users involved?
- ✓ To what degree is networking across organizational boundaries largely open, to what degree through relatively closed informal networks?

2 Stakeholder Analysis

- ✓ Which groups are benefitting most from the current activities in the sector?
- ✓ Who are the most important stakeholders in the sector in terms of influence and agenda-setting?
- ✓ Who would stand to win, and who would stand to lose if desired changes or reforms were implemented?
- ✓ Who would be active allies of reform and change, who would be indifferent and who would be likely to resist?
- ✓ What would be the likely level of resistance, and what could be options to accommodate those who stand to lose?

3 Change Capacity Assessment

- ✓ Who forms the change team in charge of managing change/reform and supervising the process, respectively?
- ✓ How committed are high-level superiors to the change, and will the change team be able to reach superiors and get their support when necessary?
- ✓ Does the change team have adequate capacity in terms of leadership, clarity of goals and priorities, communication capabilities, technical competencies and logistical support?
- ✓ Will users, clients or customers engage in the reform/change, and will the change team be able to reach out and influence users/customers as required?
- ✓ Are important stakeholders (organizations, peers, colleagues whose contribution is important) supportive, and does the change team have access to and ability to influence and draw on networks?

3.3 World Bank 2009: Problem Driven PEG Analysis

The World Bank recently published a report on “Problem Driven Governance and Political Economy Analysis”¹¹. The objective of this good practice framework is to systematize approaches to governance and political economy (GPE) analysis and to provide readily available orientation for World Bank task team leaders (TTLs) and teams.” The framework therefore advocates a rather different – and maybe more realistic - approach than Danida 2009 in terms of stakeholder involvement in the analytical stage.

It takes the general view that in order to improve development effectiveness, GPE diagnostics should become integral to preparing and implementing Bank strategies and operations. The key intention of the framework is to propose standards for such diagnostics and to synthesize lessons learned.

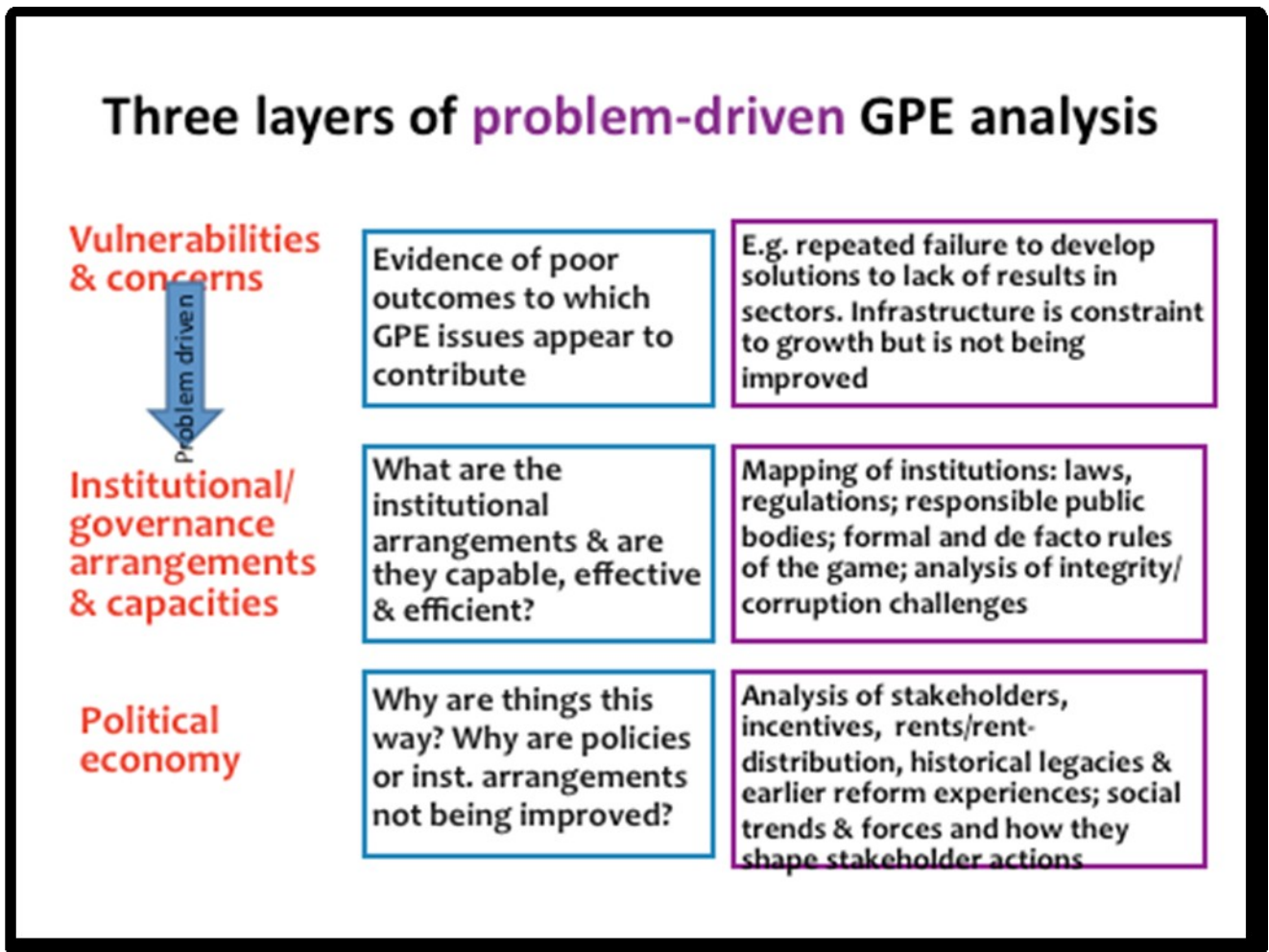
The emphasis of the framework is on ‘problem- driven’ analysis. It emphasizes GPE analysis that focuses on particular challenges or opportunities, such as analyzing why reforms in the power or health sector or those aimed at improving urban development might not have gained traction and what could be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

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

The figure below presents the three layers and related key issues.

¹¹ World Bank, PREM: Problem Driven Governance and Political Economy Analyses – Good Practice Framework, September 2009 by Verena Fritz, Kai Kaiser and Brian Levy. <http://siteresources.worldbank.org/EXTPUBLICSECTORANDGOVERNANCE/Resources/PGPEbook121509.pdf?resourceurlname=PGPEbook121509.pdf> - the brief outline of the key contents of the approach follows closely the executive summary of the report.

Figure 2: Three layers of PEG Analysis (World Bank)



Source: ppt presentation by Kay Kaiser at DfID seminar 2009.

As outlined in Figure above, the first layer requires defining the challenge to be addressed (and to establish that it appears to have a governance or political economy dimension). The second layer aims at understanding institutional and governance arrangements and how these are related to poor outcomes. The third layer aims at drilling down to the underlying political economy drivers.

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

4. HOW PEG ANALYSES INFLUENCE DEVELOPMENT WORK

Political economy analysis has often been perceived as primarily concerned with identifying obstacles and constraints. However, increasingly it is being required that analysis should inform development work in more operational ways and e.g. be used to identify opportunities for leveraging policy change and supporting reform. By better understanding the political constraints that partner institutions and governments face, it should be possible to work more effectively with them to identify reforms that may not be “ideal types” but best suited the particular circumstances.¹² Below we explore how analyses can inform (A) the particular prioritisation and sequencing of reform efforts and (B) the general programming interventions of development partners.

Box 3: Fragile environments. In fragile environments, political economy analysis can inform our work on state building and peace building by identifying entry points for promoting an inclusive and stable political settlement. This might include measures to promote political reform, strengthen the core functions of the state, or improve the delivery of services that build state legitimacy and respond to societal expectations. It can also identify how we might work outside the state to build progressive change coalitions across civil society, the private sector and the media.

Political economy analysis can also be used to better understand the impact of various external drivers (e.g. trade, international corruption, climate change, the media) on domestic governance and political processes. This includes recognising the role that donors play as political actors, as well as providers of aid. Good quality analysis can enable donors to critically assess their own incentives and interests in partner countries, and ensure they “do no harm” through their projects and programmes. This includes flagging up where external interventions may unwittingly undermine the institutional fabric of a partner country or fuel conflict, as was the case in Nepal in the mid 1990s. DfID How to Note 2009 op. Cit.

Political economy analysis is not only important for increasing our understanding, but it can play a key role in changing the way we work.

4.1 PEG informing Sequencing of Reforms

PEG analysis can inform the sequencing of reforms. Decisions on sequencing can partly be made based on normative/technical consideration of the best way of e.g. sequencing fiscal decentralisation¹³, but also need to be informed by an analysis of what politically is feasible. One of the most systematic approaches for guiding the sequencing and prioritisation of reform work according to analysis of “what politically is feasible” is the World Bank “Expected Utility Stakeholder Model¹⁴”. The approach includes a very systematic (some would argue “rigid”) quantitative assessment of likely support and resistance to various reform options.

¹² The DfID Practice Note refers to these as “second best” reforms – yet as they may be more effective than imported “best practices” this seems to be a wrong term.

¹³ Very informative paper by Roy Bahl and J Martinez-Vazquez: Sequencing Fiscal Decentralisation – Andrew Young School of Policy Studies (draft April 2005),

¹⁴ World Bank 2004: PREM Notes no 95: Operationalizing political analysis: the Expected Utility Stakeholder Model and governance reforms” by Barbara Nunberg and Amanda Green www1.worldbank.org/prem/PREMNotes/premnote95.pdf

The approach is exemplified by the procurement reform. The first step of the approach is to establish a continuum of options for reform and establish the relative political difficulty of each (see figure below). In the example provided, implementing internal audits (score of 60) was perceived to be roughly twice as hard, politically, as initiating open bidding for contracts (score of 30). The Model would also map the policy stance and relative strength of various stakeholders and subsequently with the help of special software programme simulate various “games” to predict the level of reform that would be most feasible politically. Thus although World Bank Country office might perceive “Restructuring of government Agencies” as the most desirable programme focus the analysis might suggest that steps leading towards “provide general enforcement through internal audits” would be the most realistic given existing stakeholders interests, strengths and likely coalitions.

Figure 3: Policy steps in procurement reform

100—Ensure rigorous enforcement of all procurement laws
85—Restructure government agencies
60—Provide general enforcement through internal audits
45—Introduce ad hoc large-scale regulation enforcement
35—Introduce ad hoc small-scale regulation enforcement
30—Create fully open bidding process
25—Increase competition and public monitoring in bidding process
20—Build and streamline information technology and e-procurement systems
0—No reform

Source WB 2004, PREM Note 95.

The approach has been applied in a number of situations by the World Bank with some apparent success (World Bank 2004 op. cit.) - although many also would argue that it is too rigid. Some principles of the approach could possibly be applied in a more qualitative and consultative manner through sector PEG work if specific questions regarding reform options, sequencing and related stakeholder are pursued in analysis.

4.2 PEG Informing Development programming

PEG analyses may also inform broader options of development programming, including country program priorities, choice of aid modalities (e.g. sector budget support or not), partner choice as well as the specific programme design whereby interventions e.g. may seek actively to transform incentive structures that in turn may lead to a second stage of more ambitious reform. The table below summarizes DfID experiences.

Table 1: How PEG Can Inform Development programming

Tasks	Conventional donor analyses	Insights from political economy analysis
A) Formulating country plans (CPs)	Priorities for CPs determined on the basis of PRSPs or technical advice on the impact of alternative investment choices on poverty and growth.	Priorities reflect a deeper understanding of what interventions are likely to work, given prevailing interests and incentives. CPs also consider which interventions might help to shift incentives in a pro-development direction
B) Choice of aid modalities and partners	Choice of aid modalities (including use of country systems) determined on the basis of fiduciary risk and broad assumptions about developmental benefits.	Choice is based on a specific understanding of how alternative modalities and partnerships fit into and influence incentives of different actors in the country. The underlying drivers of country-system improvement are considered.
C) Design of projects or programmes	Political risks affecting project success are relegated to the 'assumptions' column in the log frame, and revisited only if the intervention fails.	Interests and incentives, especially those created informally, are explicitly addressed in programming. Interventions may seek to transform incentive structures, or work around them, but never ignore them.
D) Informing dialogue and engagement with partners	Political dialogue is formal and conducted at 'arm's length'. It focuses on governance and human rights standards, without reference to the deeper processes that underlie performance in these areas.	Dialogue with partners is sensitive to the underlying causes of good and bad governance. This enables closer working relationships, and greater directness and mutual respect. More politically intelligent ways of working open doors and allowing DfID to 'punch above its weight'.
Issues		
E) Civil Service Reform	Policy and institutional reforms are typically prioritized on the basis of efficiency/equity considerations without considering the distribution of power and influence between opponents and beneficiaries.	Analysis identifies the room for manoeuvre – in other words, which reforms are likely to have political traction, which may be completely blocked and what sequencing devices might shift the balance of forces in favor of the intended beneficiaries.
F) State building and Peace Building	State building seen as a largely technical task of (re)creating the capacity to perform conventional state functions by restoring formal organisations. Peace settlements and security assistance set countries on the road to avoiding recurrence of conflict and rebuilding their states.	Support to state-building takes account of the underlying 'political settlement'. Tasks are carefully prioritized and sequenced, taking tradeoffs into account. Peace building strategies based on understanding the root causes of conflict and promoting an inclusive political settlement, which goes beyond support to an initial peace agreement.
G) Service Delivery	Poor service delivery outcomes are attributed to a range of technical, financial, capacity and organizational weaknesses within the sector concerned.	Analysis identifies how and why different sectors are prioritized, and who the "winners" and "losers" might be. Action is informed by an understanding of these constraints, where the most appropriate entry points might be, and the medium-term strategies to help overcome obstacles.
H) Growth	Growth diagnostic tools identify specific factors or 'binding constraints' that hold back growth in different contexts and at different points in time.	The deeper causes of failure to address the binding constraints to growth are identified. On this basis, growth policies take into account feasibility or include actions to strengthen pro-growth coalitions.

Source: DfID How to Note 2009 op. cit.

5. PEG ANALYSES OF DECENTRALISATION REFORMS

5.1 Sector Specific Frameworks and Approaches

Development partners and organizations will normally always undertake some kind of background analysis prior to formulation of an intervention¹⁵. However, specific guidelines for how to conduct a PEG analysis of decentralisation reforms as a part of development work have until very recently been missing. The World Bank is currently in the process of developing such an analytical framework – preliminarily titled “The Political Economy of Decentralisation Reforms in Developing Countries: A Development Partner Perspective”¹⁶.

The paper presents a preliminary framework designed to help international development partners consider the relevance of political-economy issues for their programmatic support to decentralization and local government reform. The intention is not to advocate decentralization in general or in any particular form, but to better understand how political and institutional dynamics (primarily national and intergovernmental) do or could affect the scope for decentralization reforms aligned with normative service delivery, governance and poverty reduction objectives. The underlying premise is that systematic analysis of these issues can productively complement the dominantly technical diagnostic work typically carried out by development partners.

The framework suggests the analysis to consider four main issues:

- ✓ The initial context and motivations for decentralisation reforms, the paper argues that understanding initial conditions under which decentralization arose is a useful starting point for assessing the most genuine and robust reasons for pursuing it, their likely implications for the shape and pace of reform, and the likely durability of resulting policies;
- ✓ The key actors involved in decentralization—politicians, bureaucrats and citizens—and the incentives that condition their behavior with respect to reform design and implementation;
- ✓ The reform trajectory: how reform has unfolded since the initial decision to decentralize; the paper stresses that reforms are long term processes - and that implementation stages typically lead to new forms of political struggles where elements of the state bureaucracy suddenly may see reforms as threatening or politicians incentives change;
- ✓ The role and incentives of key external development partners with respect to decentralization; the paper argues that some donors tend to advocate democratic decentralization based on the assumption that this type of decentralization is “inherently desirable”. The paper argues: “...other organizations, such as the World Bank, are typically more restricted by their charters and their professional dispositions to emphasize service delivery and poverty reduction, rather than more explicitly political

¹⁵ One of the better general guidelines to background analysis for support to decentralisation reforms is found in UNCDF 2005: Delivering the Goods -Building Local Government Capacity to Achieve the Millennium Development Goals - A Practitioner's Guide from UNCDF Experience in Least Developed Countries October 2005.

¹⁶ Kent Eaton, Kai Kaiser and Paul Smoke: The Political Economy of Decentralisation Reforms in Development Countries – A Development Partner Perspective, May 2010.

objectives". On the other hand it is noticeable how consistent the World Bank pursues strategies for a different form of reform: "Community Driven Development that effectively in many countries is pursued at the detriment of more coherent decentralization reforms"¹⁷.

The paper has an extensive and rich discussion of "Understanding Political Incentives and Behavior". This includes a discussion of electoral incentives (how different electoral systems or electoral patterns influence stakeholders position), partisan incentives (the dynamics of inter and intra party competition), and a broad range of institutional incentives related to presidentialism/parliamentarism, reform sequencing (administrative, fiscal and political), levels of decentralisation (examples of partisan politically motivated preferences for "provincial" or "district" level decentralisation) as well as **coalitional** incentives (with emphasis on the role of labor movements and business associations). The paper furthermore discusses "bureaucratic incentives and behaviour" with emphasis on institutional relations and conflicts between key central government ministries and offices. The discussion of the typical relations between ministries responsible for local governments and finance is in particular detailed and useful as well as the discussion of an increasing trend, the establishment of constituency development funds for Members of Parliament (MPs), which creates parallel funding channels at the local level for service delivery, which assist the MPs in getting control and legitimacy at the local level in competition with the local politicians¹⁸.

The paper concludes with a chapter that attempts to summaries "why and how does political economy analysis matter for development partner operations". This is mainly a recapitulation of the questions pertaining to:

- ✓ The initial country contextual circumstances and most critical motivations for starting decentralisation and local government reform,
- ✓ The range of country actors and organizations involved in moving decentralisation forward,
- ✓ The range of development partners involved in supporting decentralisation,
- ✓ The trajectory of reform.

The main strength of the paper is its discussion of the types of incentives and actors that typically determine decentralisation reforms, however the paper is rather silent in its discussion of appropriate development partner interventions and options except that interventions should be informed by analysis. This is a tendency in many other papers on political economy.

¹⁷ The tensions between CDD approaches that often emphasise either project specific interventions (social action funds, etc.) or sector specific approaches (specific committees to cater for interests of fishery communities, forestry, etc.) are well recognised also within the CDD group of the World Bank but tend to be dismissed as a problems of "learning from each other" rather than fundamental institutional conflicts. See e.g. <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALDEVELOPMENT/EXTCDD/0,,menuPK:430167~pagePK:149018~piPK:149093~theSitePK:430161,00.html> and Linking Community Empowerment, Decentralized Governance, and Public Service Provision Through a Local Development Framework Louis Helling, Rodrigo Serrano and David Warren, World Bank, SP Discussion Paper 0535, 2005

¹⁸ Examples of countries where Constituency Development Funds are implemented or under development include: Kenya, Zambia, Tanzania and the Philippines.

5.2 Academic Analyses

A large body of academic work is dedicated to political analysis of public sector reforms, decentralisation reforms and wider governance issues that are of relevance to development programming¹⁹. The typical strengths of academic political analysis of decentralisation reforms are (a) their long term perspective/historical trends (b) their analysis of broad political incentives for reform (c) their analysis of local stakeholder interests and local political issues that may impact on reform outcomes and (d) peer review mechanisms that generally ensure quality of work. However academic analyses are in general not much concerned with operational recommendations for reform practitioners. Academic analyses are often a bit outdated compared to development practitioners needs and rarely analyze specific bureaucratic incentives for reform or relationship between e.g. details of local government reforms and public financial management reforms. Much academic analysis focuses also on specific sub-issues like: presidential motives for reforms, councilors' responsiveness, tax issues, etc. without providing an explicit comprehensive analysis of reforms. Academic analyses of decentralisation reforms do however (when they exist) provide a critical starting point for a more practice-oriented PEG analyses.

5.3 Development Programming Analyses

Some PEG analyses have in the past been undertaken of decentralisation reforms with an explicit ambition of informing development programming, this includes for instance assessment of decentralisation reforms in Zambia (World Bank), Uganda and Malawi (Irish Aid), Nepal (UNCDF) and Bangladesh (World Bank), Ten-country African Study (USAID)²⁰.

The analyses include several useful insights into various stakeholders' perception of selected elements of decentralisation reforms. However, many of the analyses have substantive weaknesses. They frequently focus on a very narrow subsection of decentralisation issues that for one reason or other has attracted attention (e.g. the Uganda study focuses almost entirely on issues related to district fragmentation and the abolition of certain relative minor local taxes). In some cases they also focus on a narrow set of stakeholders (e.g. Bangladesh study analyses primarily local stakeholders). The Zambia study and USAID comparative study are in many aspects the most comprehensive in terms of stakeholder analysis and identification of various political motives and incentives for and against reform – however most of these studies fail to come with specific programming recommendations.

¹⁹ The volume of work is massive and a full review is far beyond the scope of this paper. Some selected references include: Manor 2004, Olowu 2003, Crook 2003 Shirk 1993.

²⁰ Cammack, Diane, Fred Golooba-Mutebi, Fidelis Kanyongolo and Tam O'Neil 2007: Neopatrimonial Politics, Decentralisation and Local Government: Uganda and Malawi in 2006; Simutanyi, Neo 2007: Political Economy of Decentralization in Zambia - Final draft report undertaken as part of 'Zambia: Crafting a Governance- Responsive Country Strategy.' Commissioned by: The World Bank Country Office, Lusaka; World Bank: Decentralization and Local Governance in Bangladesh: An Analysis of Stakeholder Perspectives, Social Development Department, The World Bank, November 2007, USAID 2010: A comparative analysis of Burkina Faso, Tanzania, Mozambique, Uganda, Mali, Ghana, South Africa, Nigeria, Ethiopia, and Botswana (in print).

The common shortcomings therefore call for further attention to the following issues in future PEG analysis of decentralisation:

- ✓ The need for anchoring the PEG study within a comprehensive technical analysis of reforms,
- ✓ The need to undertake a comprehensive stakeholder analysis that focuses on both political and bureaucratic incentives for reform,
- ✓ The need to explore specific reform options through the analysis in order to be able to later making operational recommendations.

6. DECENTRALISATION ANALYSES – TOWARDS GOOD PRACTICES

Several of the general principles proposed by the various PEG approaches apply equally to PEG analysis of Decentralisation. Among these the most important is probably to carefully clarify the purpose of the analysis, which in turn will determine the form and contents of the analysis as succinctly described in the Danida Guidelines 2009.

A number of other good practices are outlined in the recent Danida, DfiD and World Bank Guidelines presented in previous chapters. This includes various tools for stakeholder analysis and suggestions for how best to phase the analysis, etc. that can also be applied for PEG analysis of decentralisation. We will not repeat description of those tools here.

Decentralisation is a broad field (reform support may be provided through sectors, or generally, reforms may be comprehensive and underpinned by significant levels of national political leadership or not, etc.) and analyses have to be context specific and tailored to the specific purpose of the analysis. On the other hand there are also certain commonalities for decentralisation reforms that make it useful to emphasize specific aspects of analyses. For instance a key feature is the very political nature of decentralisation reforms compared to other public sector reforms and common incentive patterns among bureaucrats, etc as further discussed below.

The section below provides an overview of these specific issues for consideration of PEG analysis of decentralisation reforms and subsequent sections present these in more details. In addition, the chapter seeks to address one of the key challenges in much of the general PEG analyses: guidance on how to translate analysis into action by policy makers and development partners.

6.1 Specific Issues for Consideration in PEG Analysis of Decentralisation

Decentralisation reforms include a wide range of policy reforms and various sub-sector specific issues as well as forms of related development assistance modalities. There are nevertheless certain issues that are specific to decentralisation reforms. In the following sections we elaborate on four key issues:

- ✓ The need for combining PEG analysis with a comprehensive technical review of decentralisation reform – based on analysis of the “five pillars of decentralisation”. A proper technical analysis will identify where specifically the most critical problems are that subsequently would benefit from further stakeholder and power analysis. Occasionally politicians and bureaucrats are worried about new reforms due to lack of knowledge about technical issues, and clarification of these may also provide momentum for reform.
- ✓ The specific political incentives often at play in decentralisation reform; decentralisation reforms are by nature more “political” than other public sector reforms. The degree of political decentralisation and local government electoral systems can make or break Presidents and ruling parties. Parliamentarians and Presidents have different interests in decentralisation reforms in various stages of reform according to prevailing political constellations.
- ✓ The specific bureaucratic and development partners incentives at play; decentralisation reforms may substantially alter the way public servants are working; ministries may be reorganized, resource flows may radically change and powers and authorities may radically change. The reforms depend to a large extent on the active participation of a wide range of ministries yet their incentives for engagement may in various reforms stages be very limited. The appropriate level of analysis is to focus at the relationships between different key sector (reform) initiatives that also frequently are advocated for by different development partner organizations that also may have different incentives for their particular engagement.
- ✓ The types of possible operational implications arising from PEG analysis; rather than simply inform development partners of whether reforms are feasible or not, a well well-researched PEG analysis could also provide more operational guidance on specific support options such as choice of key government partners, sequencing of reforms, choice of aid modality, etc.

6.2 Problem Driven - Informed by Country and Technical Sector Analyses

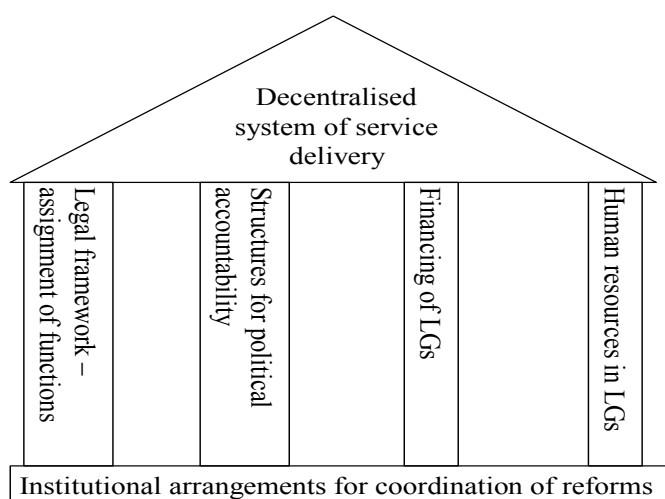
Key Recommendation 1: Let PEG analysis be problem driven and informed by a comprehensive technical sector analysis (the five pillars)

It is helpful to let a comprehensive technical analysis guide the focus of PEG analysis. The suggested approach for the technical analysis is based on a comprehensive country review of the below “five preconditions” for effective decentralization:²¹

²¹ Further described in the paper: Good Practices for Support to Decentralisation.

1. The presence of **legal framework**, which clearly stipulates the division of roles and responsibilities between different layers of governments and various institutions in an appropriate manner,
2. **Financial resources** adequate to undertake functions and with appropriate level fiscal autonomy,
3. **Human resources** adequate to undertake functions with appropriate level of local autonomy and measures for effective staff motivation,
4. **Effective mechanisms for local level accountability** – indirect through elected leaders and directly through relevant modalities for citizen engagement (this may require some form of “political economy analysis” at the local level,
5. Finally all of the above needs to be supported by relevant central institutional arrangements for reform oversight and coordination.

Figure 3: Five Preconditions for Successful Decentralisation



An example of a comprehensive technical analysis of the above five preconditions appropriate as a starting point for PEG include, for instance, the 2007 Policy Reviews in Ghana²².

Such technical analysis can guide PEG analysis in two important aspects:

- ✓ It can guide the focus of the analysis – where exactly are the reforms facing the most significant obstacles?
- ✓ It can guide formulation of relevant alternative reform scenario or sequencing through later PEG/stakeholder analysis.

An initially defined problem such as e.g. “lack of fiscal decentralisation” may turn out to be less of a core reform issue than originally anticipated. For instance, during 2001-2007 in Tanzania significant emphasis was paid to the development of a fiscal decentralisation strategy to underpin the wider local government reform. After some 3 years of analyses and consultations a framework was agreed upon but, to the great frustration of supporting partners, never implemented. However a broad technical analysis established that the core problem was the central government reluctance to effectively implement its intended decentralisation of human resource management – thus if reform progress was to be made, it would probably be

²² <http://dege.dk/assets/files/DecentralisationPolicyReview.pdf>

necessary to engage much more with public service department rather than Ministry of Finance and local governments, etc.

6.3 Understanding Political Incentives²³

Key Recommendation 2: Understand the practical significance of motives that drive politicians to support or oppose reform at various stages of the decentralisation process.

6.3.1 Beyond "Political Will"

Eaton, Kaiser and Smoke (2009) state as a matter of introduction to their framework: "No matter what the official justification, decentralisation is largely driven and continually shaped by politics."²⁴

In order to make meaningful interventions in support of decentralisation reforms it is therefore critical that development partners understand the "politics of reform" in a manner that goes substantially beyond the overused, misunderstood and vague indicator of "political will". They suggest that past attempts of development partners to understand the politics of reforms often has reflected an overly **voluntarist** set of assumptions whereby decentralisation is defined in normatively state of the art institutional arrangements – as one universal set of preconditions so to speak. According to this thinking, decentralisation would be implemented in the desired manner once politicians and bureaucrats were sufficiently enlightened and committed to reform. Eaton, et al. suggest an alternative more nuanced approach that goes beyond the concept of "political will" and instead focuses on political (and bureaucratic) incentives.

6.3.2 Initial Context and Later Reform Trajectory

The initial motives for starting decentralisation reforms are critical for understanding the likely reform trajectory. However, it is important to realize that the dynamic character of reforms also frequently change over time.

Decentralisation in Uganda was in the 1980s triggered by the near collapse of the state apparatus and Museveni's need to establish a formal political base of support through the Resistance Councils that formed civilian support groups under the civil war. The motivation for further decentralisation declined as opposition parties took control of important local governments and as the central government machinery was strengthened. The reforms in Ethiopia, Cambodia and Rwanda arose in a similar way out of a post conflict situation – but each with their distinct political patterns. Reform in Vietnam and China are frequently discussed on the background of market liberalization (Easton et al op cit), but may be better understood on the background of general quest for territorial party control, etc. On the other hand some countries have adopted decentralisation policies without any significant internal political pressure but as largely benevolent development initiatives occasionally lobbied for by development partners.

²³ This section is largely based on Easton, Kaiser and Smoke op. cit. 2009. Their draft framework is 70 pages and only partially and briefly summarised here.

²⁴ Easton, Kaiser and Smoke op. cit. 2009.

A country with no significant strong internal political pressure is likely to move very slowly (e.g. Tanzania and Cambodia) or to stall at early stages at reform such as e.g. in Zambia and Bangladesh. On the other hand a country in crisis may decentralise too fast and run into serious problems later.

6.3.3 Electoral Incentives

Electoral competition can generate incentives but also resistance to reform. Political parties and candidates can in some circumstances have significant motives for promotion of (specific forms of) decentralisation. In Mexico in the 1980s the right-centre opposition party managed to come to power through state level elections that they subsequently empowered through further decentralisation (Beer 2004), similar expectations regarding the possibility of building strong local political in wake of central political threats also lead ostensibly to the fairly radical decentralisation reforms in Bolivia and Chile (Oneil quoted in Easton 2009). However, similar perceived risks of losing local political control can also lead central parties to centralisation. The increased strength of opposition in many local governments in Uganda probably explains Museveni's passing enthusiasm for decentralisation reforms.

The particular political context may also provide strong incentives for politicians to advocate particular systems of elections or timing of election. Normally it is argued that by holding local government elections as separate from national elections it would encourage a particular focus on local issues in local government elections and thus strengthen the local accountability of local governments. Dominant parties may see an interest in holding national and local elections concurrently in order to extend their control at the local level. In Tanzania the dominant party has established a system whereby the very lowest level of local governments are elected one year in advance of national and district level elections – that system favors CMM control as only they can muster the logistics required for election more than 200,000 "grass-root leaders."

6.3.4 Presidents and Parliament

Presidents and Parliament may have very different perspectives on decentralisation. In general it is the President or Prime Minister that will receive local credit for decentralisation reforms. This can contribute to their building of local power bases and demonstrate their capabilities of "outreach" although appointed local leaders obviously provide more imminent opportunities than locally elected.

Parliamentarians may often see their local patron-client relations threatened where decentralisation reforms empower local governments in delivery of services. In many of the new and transitional democracies, the role of Parliamentarians is, to a large extent, perceived by their local constituency to ensure delivery of goods that decentralisation may devolve to local governments: e.g. provision of schools, clinics and local roads. A common response in many countries has been the invention of Constituency Development Fund that provides each MP with a budget allocation for basic local service delivery. In countries like Kenya, Zambia, Solomon Islands and the Philippines this creation of additional planning and service delivery channels has led to fragmentation of already weak local planning systems²⁵. In many other

²⁵ A global network of civil society organisations concerned with these developments is emerging – see e.g. <http://internationalbudget.wordpress.com/2010/08/12/constituency-development-funds-african-parliaments-faustian-bargain/>

countries MPs are given a seat in the local councils. When their seats were moved from the district councils in Uganda in 1997 they responded by strongly supporting a new revenue sharing systems that gave the lower sub counties a much larger share of local revenue at the expense of districts.

6.3.5 Local Government Politicians and Associations

Local politicians have the most immediate interest in supporting decentralisation reforms. Their motivation and effectiveness as advocate for reforms depend e.g. on the nature of internal party structures – the extent to which national leaders gain their authority from local leaders or vice versa. It has for instance been argued that the substantive increase in fiscal transfers in Brazil in the 1980s was largely explained by the political powers of the recently introduced governors in national politics.²⁶ However, frequently local leaders depend on national patron-client relations. Still national politicians may challenge even minor steps for increased local political empowerment, as e.g. in Ghana where the President nominates large parts of the local council. Local Government Associations are therefore in practice often very weak players – and do not exist in many countries. Development partners may choose to strengthen these anyway and in some cases the establishment of technical competent secretariats can lead to some increased advocacy roles as seen e.g. in Uganda. However, their inevitable political nature does pose risks for donors – in Bangladesh USAID got into trouble for having supported the nascence of an LG apex body, which was perceived as hostile to central government, and had to drop the project.

6.3.6. Civil Society, NGOs and the Media. In some countries these various organizations play an important role in shaping political and policy debate and discourse in regard to decentralisation and LG. In Bangladesh, since the early 2000s there has been an important grouping of various national NGOs that engages government on the need for reform (even organizing long marches!); yet, until late 1990s, it is also worth noting these same NGOs had often been very hostile to LGs. In some countries the media also shapes political debate on LGs, for good or ill – in Uganda, the press always seemed to be sympathetically critical of LGs and provided regular pages of news items. In Tanzania CSOs have become active “bloggers” on local government reform issues²⁷.

6.3.7. Current Narratives and Terms of Discourse. It is common that the decentralisation debate in a specific country is dominated by a specific set of themes, concerns or discourses which frames – and may often limit or bias – the political debate (and hence advocacy by donors) on decentralisation. In South Asia especially there is a strong view that LGs are likely to be dominated by local “elites” (no doubt largely influenced by the caste problem there); in Afghanistan decentralisation was equated with centrifugal federalism by some, and with warlordism by others; in Bangladesh a major concern amongst civil society advocates is the perverse role of MPs in LG, in Uganda concerns have for long focused on tax abolition and district fragmentation, in Tanzania focus has for long been on the lack of formula based allocations of recurrent grants – these particular focuses each have their own history and justification but can take a life on their own and can often crowd out other issues from debate. In Timor, in the post-independence phase there was a strong political affinity for things Lusophone, and so it proved hard to introduce institutional options for LG inspired from other

²⁶ Willis Garmand and Haggard 1999: Decentralisation in Latin America – Latin American Research Review (34) pages 7-56.

²⁷ <http://www.policyforum-tz.org/groups/lgwg>

parts of the world; in Laos the fixation with recentralising government revenues made it hard to talk about decentralisation (even though the two processes could take place in parallel); in Laos too, the politics are such that it proves very hard to table decentralisation policy innovations if these do not originate in fraternally socialist Viet Nam or China. Clearly, it becomes critical to tailor the language of dialogue, and the rationale and design of programmes, to match the “mindsets” reflected by these sorts of discourse – but also deliberately challenges these discourses when they become straightjackets for constructive dialogue and analyses.

6.4 Bureaucratic and Development Agency Incentives – Analysis of Reform Coordination

Key recommendation 3: Understand the practical significance of motives that drive bureaucrats as well as development agencies to support or oppose reform at various stages of the decentralisation process

Decentralisation reforms are characterized by a rather complex set of bureaucratic stakeholders. Decentralisation may often require the active engagement of a much broader range of ministries and other stakeholders than e.g. education or health sector reform. It is complicated by the fact that “decentralisation” is not a well-demarcated “sector” with well-defined roles and responsibilities for involved parties. In this section we will briefly present some of the most common stakeholders and typical incentives that drive their position on decentralisation reforms. To understand their motives it will often require that PEG analysis includes a fairly detailed assessment of the various core programmes and reforms that the involved stakeholders engage in. A focus may for instance be the relationship between the many ongoing reforms such as public/civil service reforms, public finance reforms and various sector reforms.

Ministry of Local Government

Many countries have a “ministry of local government”. Alternatively, local government may fall under ministries of interior or home affairs (typically in countries with less of a tradition with autonomous local government such as former French or Portuguese colonies). They are responsible for policies related to local governments and often the natural anchor for most decentralisation reforms in developing countries. However, these ministries may still have institutional incentives for maintaining a high degree of central control in certain areas. In Mali - and in Timor - the Ministry for State Administration has responsibility both for oversight of appointed governors and prefects, but also for nurturing elected local governments, causing an inevitable tension in its view of the central control vs local discretion balance. In Kenya for instance, the ministers manage staff transfers and intervene significantly in budget process and in many countries the ministry will also control a range of fiscal fund transfers. Their articulated support for decentralisation reforms may be a cover for turf wars with other central ministries rather than indication of sincere support for more autonomous local governments. Central ministries may also have little organizational outreach to monitor and support local governments – in Bangladesh the Local Government Division maintains only one junior, part-time official at District level, charged with the impossible task of monitoring 50-90 local bodies. A final problem with ministries of local governments is that they have no or very limited mandate to address cross-ministerial issues. In critical stages of decentralisation where

functions are to be devolved and subsequent resources transferred to local governments, they would have very limited mandates compared to other central ministries discussed below to coordinate reforms. Although ministries of local governments are often by default considered the “lead agency” for decentralisation reforms it should be kept in mind that their mandate is primarily one of “local governments” and therefore much different from an ideal mandate of public sector coordination.

Ministry of Finance

The ministries of finance would often play a critical factor in local government finance and any attempts of fiscal decentralisation reforms. The inherent mandate of the ministries of finances would often tilt towards concerns related towards overall macroeconomic stability and cautious management of public finance that often translate into resistance to decentralisation reform. However ministries of finance can also support reforms when they see that their core mandates and concerns are catered for. Bureaucrats in the ministry may for instance find it a release to avoid constant haggling over various ad-hoc transfers and instead transfer the system towards a more rule based (formula) system of budget allocations, and is obviously interested in supporting initiatives that lead to more efficient resource allocation and reporting arrangements. Their involvement in substantive reforms is a precondition for success.

Ministry of public service and related institutions are less frequently directly involved in decentralisation reforms but frequently play a key role in both local human resource management as well as issues related to ministerial reorganizations. Like the ministries of finance they are often concerned with issues that tend to make them skeptical about decentralisation reforms. Other sector reforms such as pay reforms, public sector restructuring and development of performance based management systems are frequently coordinated by such ministries and require close coordination if not integration with wider decentralisation reform.

Various Development Partners may have their own specific institutional incentives, and in aid-dependent countries they may be quite influential on certain aspects of policy and budget allocation processes. The same donor may support decentralisation reforms while supporting centralist-funding modalities in e.g. education sector programmes. Some donors have an institutional mandate to support decentralisation reforms on a normative basis. Other donors may have institutional mandates (and incentives) to promote alternative arrangements for decentralisation such as through social action funds/community driven development. In the case of the World Bank, it is likely that the frequently revealed preference for the latter approach lied in their much more reliable financial delivery record than the more “institutional” LG-focused programmes; a good portfolio delivery record is a major factor in the career development of most development agencies.

6.5 Reform Priorities and Sequencing

Key Recommendation 4: explore throughout the analysis stakeholder position on various aspects (priorities and sequencing) of the reform in order later to propose operational recommendations regarding programme implications of PEG analysis.

A major problem with many previous PEG analyses is that they ultimately fail to provide any significant guidance on how to translate analytical insights into practical recommendations relevant for development programming decision makers.

It is therefore recommended to have programming options in mind from the very beginning of the analysis and also through the stakeholder analysis explore the extent to which different programming options, reform sequencing, etc. are likely to receive support or meet resistance. The outcome of the analysis shouldn't just argue for whether to extend support or not, but explore in some detail where technically sound reform elements may be introduced and work with - rather against - "the grain".

Examples of programming options include:

- ✓ Decisions on reform sequencing – occasionally donor funded decentralisation reforms are very ambitious in the extent which they pursue ideal models. Certain reform elements may obstruct political support. In Tanzania today it is for instance impossible to gain political and bureaucratic support for the creation of autonomous human resource management by local governments. It is also technically quite risky an undertaking. The ambition is nevertheless a prominent part of the official decentralisation policy and also underpins many of the pursued (but failed) strategies for fiscal decentralisation.
- ✓ Decisions on selection of partners; Decentralisation reforms have often been developed by ministries responsible for local governments with substantive donor support. Other ministries will have far less ownership of reforms yet institutions such as ministries responsible for finance, planning or public service may be in a stronger position to address core reform challenges such as cross sector systemic changes for devolution of powers and resources.
- ✓ Decisions on aid modalities – is such an environment in place that "sector budget support can be provided"? How could related policy dialogue best be undertaken? Would it be more appropriate for a time specific intervention through traditional project modalities?
- ✓ Decisions on support on a smaller scale including more advocacy oriented work such as:
 - Support for analytical work that demonstrates weaknesses in existing service delivery and governance arrangements as an entry point for later reform work,
 - Pilot aspects of reform – e.g. block grants to selected LGs that demonstrate under which conditions may lead to improved local planning (a typical approach of e.g. UNCDF in many countries),
 - Support specific activities for consensus building among key political and bureaucratic decision makers e.g. study tours, joint training programmes, etc.

Annex 1: References and Further Reading

General Overview Papers

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Stakeholder Perspectives, Social Development Department, The World Bank, November 2007.

The Political Economy of Decentralisation in Pakistan, Transversal Theme "Decentralisation and Social Movements" Working Paper No. 1, S. Akbar Zaidi 2005

Annex 2: Resources on the web

The Political Economy Analysis Topic Guide of the **Governance and Social Development**

Resource Centre website www.gsdr.org/go/topic-guides/political-economy-analysis. This site is probably the most comprehensive resource with presentation of various approaches and tools. The site also includes examples of drivers of change country studies conducted to date.

OECD has its own section of its website committed to discussion of political economy analyses www.oecd.org/dac/governance/politiceconomy

The World Bank has a range of resources committed to improved governance and political analysis – a good starting point is this site dealing specifically with “Political Economy of Reform”

<http://go.worldbank.org/MT5JIN7GK0>

The European Union has most of its relevant literature on the topic at this useful site:

<http://capacity4dev.ec.europa.eu/putting-politics-picture>

ODI has a range of relevant literature and, for instance, proceedings from a recent (September 2009) workshop that reviewed approaches and experiences from “Analysing governance and political economy in sectors – Joint donor workshop”

<http://www.odi.org.uk/events/report.asp?id=2104&title=political-economy-analysis-donor>

Annex 3: Explanation of terms

From DfiD How To Note 2009:

Political economy analysis

Political economy analysis is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform these relationships over time

Politics

The processes of conflict, negotiation and cooperation between interest groups in the use, production and distribution of resources.

Incentives

Incentives are the driving forces of individual and organised group behaviour. They depend on a combination of: (i) the individual's personal motivations (material gain, risk reduction, social advancement, spiritual goals etc), and (ii) the opportunities and constraints arising from the individual's principal economic and political relationships.

Interest groups

Where individuals or organisations have similar aims and face similar incentives they may be recognisable as a distinct interest group.

Institutions

The rules, norms and conventions governing human interaction. Institutions may be *formal* in the sense of constitutional rules, codified laws and bureaucratic rule books, or *informal* in the sense of social and cultural norms. Political economy analysis pays particular attention to the informal norms that underpin social hierarchies, create and perpetuate power structures and generate reciprocal obligations. In settings where formal institutions are weakly embedded and enforced, informal norms often explain how things really get done.

Patronage politics or patron-client relations

A political system where the holders of power (patrons) seek to maintain their position by directing privileges at particular individuals or groups (clients) in a manner that is intended to strengthen political support and/or buy off political opponents. Patronage politics is a common explanation of why governments often direct resources at narrow groups of beneficiaries rather than the public good.

Collective action and change coalitions

Political economy analysis often describes a set of intractable problems where development is blocked by powerful interest groups. Change is unlikely to occur unless groups with a shared interest in reform work together for change. Collective action refers to the pursuit of a common goal by more than one person.

Political settlement

This phrase refers to the forging of a common understanding between a country's elites that their interests are served by acquiescing to a particular form of state. The presence or absence of a political settlement is the principal factor determining the stability of the state and feasibility of state-building processes.

Rent and rent-seeking

This refers to income generated by privileged access to a resource or politically created monopoly rather than productive activity in a competitive market. Some political systems revolve around the creation and allocation of such incomes – hence 'rent-seeking'