



Political Economy Analysis



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What is a Political Economy Analysis?

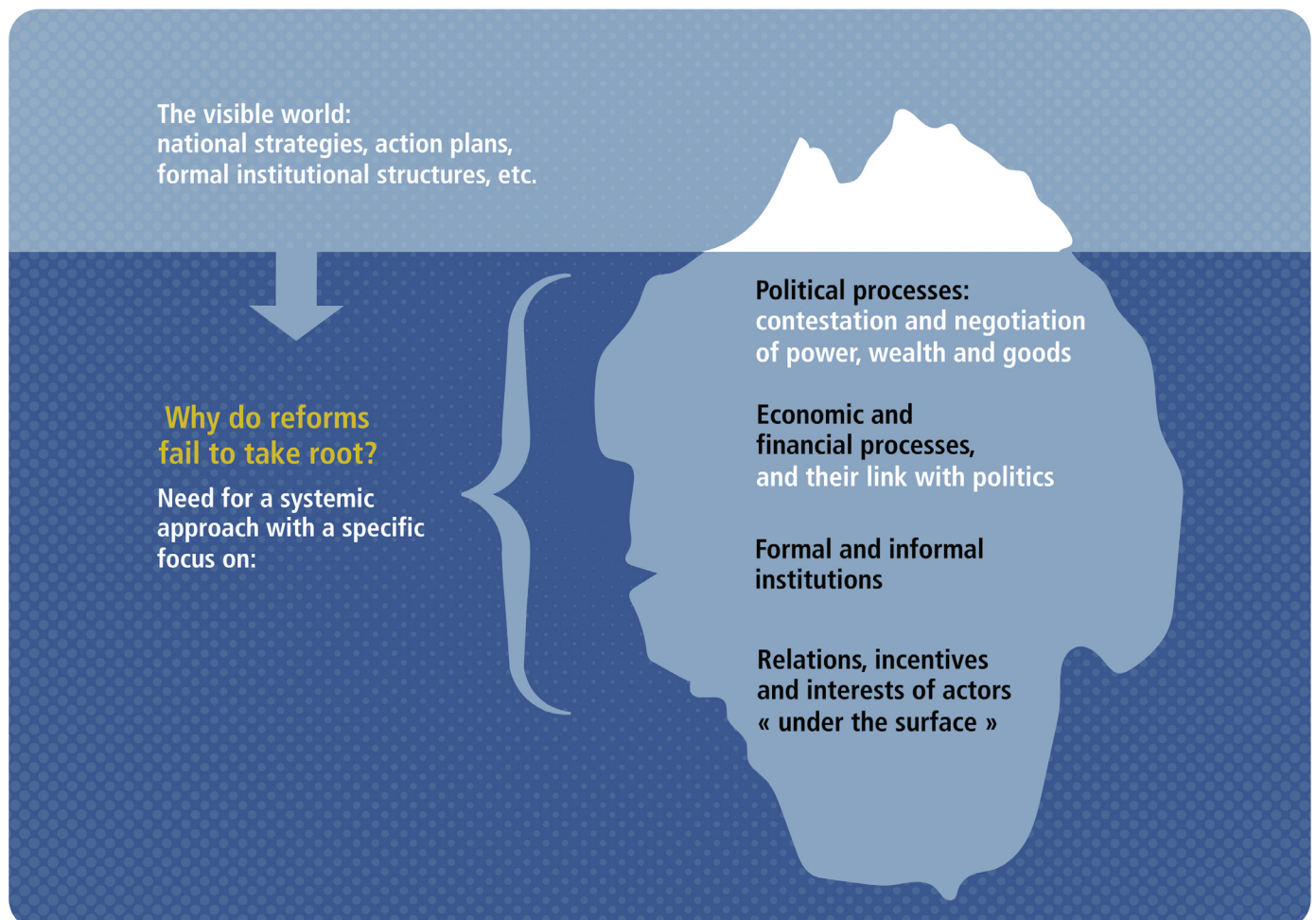
Political Economy Analysis (PEA) investigates how political and economic processes interact in any given society. It focuses on the interests, ideas, values and incentives driving the behaviour of different groups and individuals, the distribution of power and wealth

between them, and how these relationships are created, sustained and transformed over time. These relationships are not just crucial in explaining how politics work or how wealth is created and distributed, but also how developmental change might happen.

Why do we do Political Economy Analysis?

Sometimes donors are confronted with the situation of programmes that have invested a lot of time and energy in uniting stakeholders around a reform process, providing technical advisers and funds, only to see sustainable changes stall or disappear, explaining it by a lack of “political will”. PEA is one possibility to unpack this “political will” black box. Often, the persistence of poor governance and dysfunctional institutions has less to do with a lack of capacity or finance than with

the lack of motivation of powerful actors, groups or movements who gain from existing arrangements and are not interested in change. PEA aims at looking behind the facade of formal structures, official declarations and plans and understanding the constraints or opportunities for change. It helps “thinking and working politically”, and refrains from technical fixes or blueprint solutions. PEA helps us understand the relevant economic and political dynamics – and helps in delivering better results.



How to do a Political Economy Analysis

Who does the analysis?

It is important that the political and economic knowledge about powers and interests informs SDC staff actions. Thus, often a mandated PEA, done by an external consultant, does not meet the need adequately. Rather, we recommend “facilitated” processes, where the Programme Officers (who often have immense experience and tacit understandings) can make their own analysis about issues under the surface and not easily visible but often heard, felt and appreciated in daily experience.

With whom to do the analysis

- Carrying out analysis jointly with partners (diplomatic staff, implementing partners) can increase shared understanding and improve working relationships.
- Most PEAs are undertaken without formal involvement of partner governments, although informal consultations with key informants in the public service will often be productive.
- Conducting a PEA jointly with other donors can be a valuable way of increasing mutual understanding and cooperation.

How to communicate about the PEA

If the questions you raise are politically sensitive, you are on the right track. However, while it is legitimate and necessary for SDC to look into these questions, sensitivity is needed in presenting findings to official partners. It is important to discuss the audience for any written product, and how it will be disseminated. Country-level analysis is likely to be based largely on published sources and may be less sensitive than sector or subsector studies that go deeper into analysing informal networks and relationships.

What methodology to follow

There is no single method for conducting a PEA, and donors have developed and applied a variety of approaches and tools (see: 2-pager on [Governance Analysis](#)). For SDC, a PEA includes three phases (problem definition, analysis and operational implications) divided into seven operational steps.

If consultants are supporting the process, it is good if they can explain to you if and why they would differ from the approach below and what kind of methodology they follow.

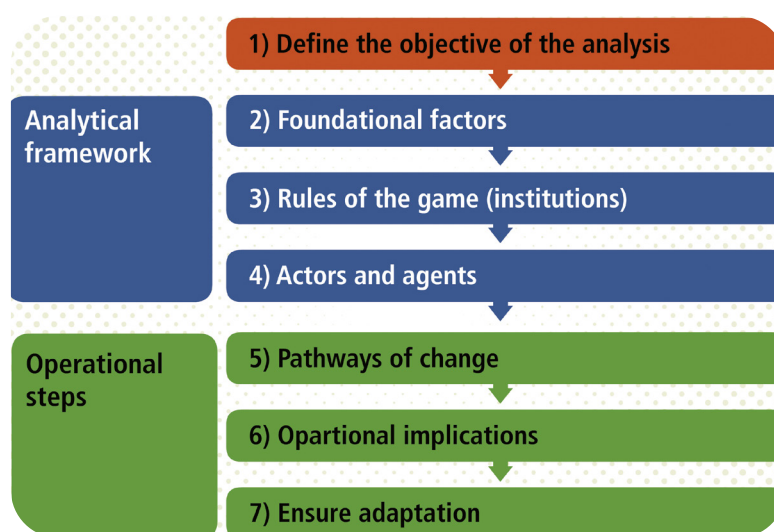


Figure 1: Seven-step framework to go from analysis to action, adapted from The Policy Practice

PROBLEM DEFINITION

Step 1: Define the purpose and objective of the analysis

A PEA can aim at understanding different levels of context, responding to the purpose it should serve:

- The **country level** looks at the political economy factors driving the development change in general,

and the overall country/context of interventions. Often, PEA updates broad strategic planning efforts in a country (cooperation programme).

- The **sector level** looks at key actors, incentives, relationships and resources at play in a given sector (health, water, education, environment, climate change, justice, etc.). It informs or updates the work in (new) domains.

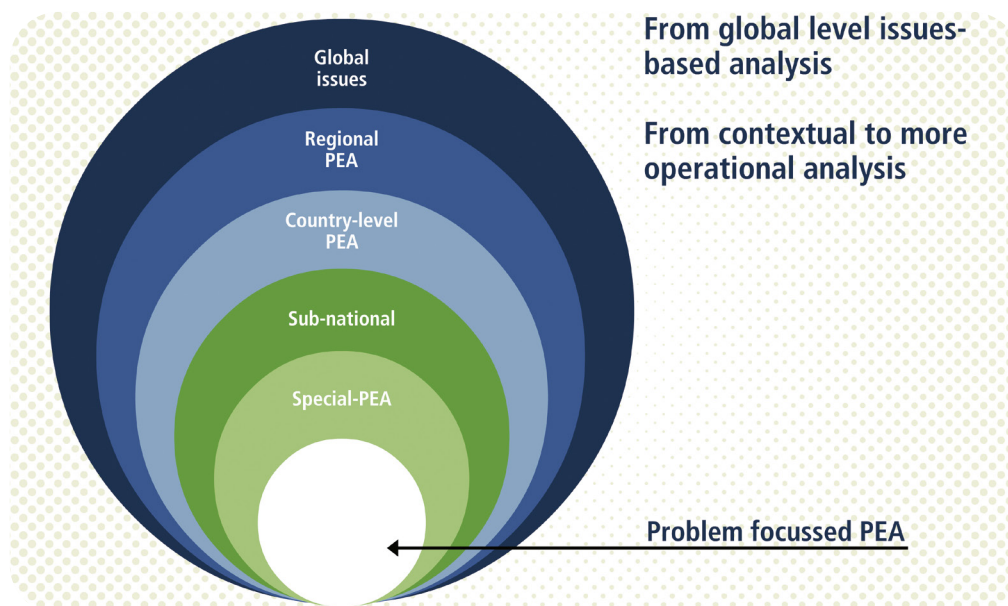


Figure 2: Different levels of PEA

- The **problem or issue level** looks at the forces that create a specific developmental or governance challenge. It often focuses at the project level and can be undertaken at the design or at the implementation phase.

Political Economy Analyses can be done on *different levels* with a *different focus*: see Figure 2.

ANALYTICAL FRAMEWORK

Step 2: Analysis of foundational factors

These factors are deeply rooted in the society and are underlying factors or characteristics of the governance system, in the history of state formation, sources of public revenue, and are embedded in social and economic structures as well as a country's geography and its geostrategic position. These factors cannot quickly be changed.

Questions at country level: What are the big economic issues that this country is facing? How does the government "earn and spend" its money and why? What are the major contours of society – ethnic, cultural, religious, minorities, young/old and gender relations?

Questions at sector level: How are the money flows in a sector, and where does public money come from and how is it distributed? Is there private money involved and who controls it? What are the main factors that shape the overall sector?

Step 3: Analysis of the "rules of the game" and political settlements

The "rules of the game" or the formal (the constitution, laws and regulations) and informal (social norms and values) institutions that shape the incentives and capacity of key actors, the relationships between them, and how processes of political bargaining play out. These rules are critical in influencing opportunities for developmental change. They impact on the behaviour, the legitimacy, acceptance and capacities of actors as well as on their relations. These rules or institutions are relatively stable or viscous but can be changed in a medium-term perspective.

Questions (all levels): How inclusive or exclusive are political and economic bargaining processes (limited/open-access orders)? Are any groups marginalised? What is the competition for political power? What are the roles of social institutions, social communication networks and their influence? What is the role of women? What is the "currency" of bargaining, the mechanisms through which influence happens (e.g. loyalty, patronage, rents)? What is the economic distribution of wealth and the dependency of various economic actors on each other and with power elites. What change or which reforms have been tried and failed, and why did they fail?

Step 4: Analysis of actors and agents

The behaviour of actors, organisations and groups is determined by interests, incentives, individual and collective attitudes, ideas, ideologies and values. It is important to realise who has which interest for change and who has what kind of power to make this change happen (power/influence-matrix). Looking at the actors in the present enables an assessment of opportunities for change in the short term (distinguishing between foundational factors that are often very slow to change, rules of the game which may be sticky but might change in the medium term, and short-term factors that may offer windows of opportunity for change).

Questions (all levels): Who are the stakeholders? How do they organise? Why are they involved? How do the stakeholders relate to each other, including beyond the obvious? How do the stakeholders see the issues at stake? What are the big incentives that might encourage a buy-in for change (e.g. debt relief, legacy, security for certain groups)? What are the big disincentives? What do we know about how the trade-offs between incentives and disincentives are normally weighed?

OPERATIONAL IMPLICATIONS

Step 5: Identify pathways of change

Steps 2–4 are a basis for identifying the dynamics and trends that may lead to – or impede – reform. The “theory of change” is our conclusion on what elements will make change happen, and what factors and dynamics can be expected to help realise a specific objective of reform. Based on the PEA, the “theory of change” may relate to expected results in the long or medium term.

Questions: How do the political economy dynamics at work create the possibilities for change? What are local incentives/pressures for positive change? What is the scope to promote development? What is the spectrum of the reform space in a given domain? What are lessons learned from previous programmes? What are tactical pathways for change (i.e. messaging frameworks, agenda setting, media influence, grassroots or community organisation, diffusion of innovations)?

Step 6: Identify operational implications for SDC

With the analysis, SDC’s role in supporting reforms may be seen differently, and its role as an actor within a wider landscape becomes more visible.

Questions: What kind of partnerships should the SDC aim for, and why? What does it mean for the positioning of Switzerland within the donor landscape? Which kind of policy messages should be prioritised? What kind of risks are we willing to take? Does our portfolio, the programme designs and approaches, the selection of partners, policy dialogue arrangements, the working procedures respond to the logic of intervention?

Step 7: Ensure adaptation

To adapt to the possible new insights that we gained from the PEA, flexibility and adaptive management will be needed. But PEA is not an on–off exercise. Monitoring, evaluation and learning processes should ensure that the evolving context is continuously assessed from a political economy perspective. See: 2-pager on *Adaptive Management*.)

Questions: What kind of spaces for reflection are in-built at the cooperation office as well as with partners to think about possible adaptations to the pathways of change and, subsequently, the operational implications?