

Concept Note
For an IEG Category 1 Learning Product on
The Use of Political Economy Analysis in the Design
and Implementation of Development Policy Financing

March 4, 2016



Concept Note for IEG Category I Learning Product

“The Use of Political Economy Analysis in the Design and Implementation of Development Policy Financing”

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1. Background and Context

1. The proposed learning product will look at World Bank’s experience in the use of political economy analysis (PEA) for development policy financing (DPF). The product is part of the program of several separate learning products (LPs) to strengthen learning in the Bank and IEG, and to contribute to the Bank’s ongoing reflections on the design and use of Development Policy Operations (DPOs). In FY 2015, IEG produced four LPs including: (1) macro-fiscal frameworks in DPOs, (2) use of Public Expenditure Reviews in DPOs, (3) social and environmental risks in DPOs and (4) results frameworks in DPOs. This exercise will build on these previous LPs and a number of large program level evaluations (Tanzania, Vietnam, Uganda, and Ghana) to contribute to a better understanding of the role and potential of political economy analysis for design and implementation of policy lending by the Bank.

2. Political economy analysis, whether through formal analysis or other instruments, is an important knowledge product for engagement of the World Bank with its clients through both investment lending (IPF) and DPF (Box 1). Although the Bank’s mandate explicitly precludes it from engaging to influence the politics, understanding of political economy context is critical for effective design of engagement through better diagnostics¹. A political economy lens broadens the Bank’s operational considerations beyond technical solutions through understanding the significance of power relations within sector, vested interests, and the links to national political processes thus enhancing effectiveness of engagement as a development partner.²

3. The overarching objective of Bank’s DPF is to promote policy and institutional change for growth and sustainable reduction in poverty.³ The Bank pursues this objective through an engagement model that relies on borrowers’ ownership of policy reforms, and uses a mechanism of flexibility (in case of programmatic series) to accommodate possible changes in the pace of reforms.⁴ This places emphasis on an accurate reading of political economy context for successful program design and implementation. Recent trends in Country Policy and Institutional Assessment (CPIA) in Bank’s clients that indicate that 22 out of 48 countries accessing DPF support from the Bank have experienced a decline in their CPIA scores in 2006-2013. This highlights the importance of strengthening DPF programs and the potential role of political

¹ Problem-driven Governance and Political Economy Analysis, Good Practice Framework, World Bank 2009.

² The Political Economy of Policy Reform: Issues and Implications for Policy Dialogue and Development Operations.

³ World Bank OP 8.60.

⁴ Good Practice Note for Development Policy Lending, 2011.

economy analysis in quality enhancement and understanding paths toward broader program ownership (Annex 6).⁵ PEAs are intended to be used both for key decisions at entry and during implementation, including on the choice of objectives and policy areas, designing the sequence of policy reforms, assessing the status of reforms and implementation of indicative triggers, discontinuation of series, re-engagement, choice of the instrument such as PBGs and DDOs, etc.

Box 1. Bank's Recent PEA Work

PEA, which has a long history in the Bank, received new impetus following the adoption of the Governance and Anti-corruption Strategy (GAC) in 2007. The momentum was strengthened by availability of funds through Governance Facility for PEA. The Good Practice Framework developed by the Governance Network was published in 2009 providing guidance on PEA sponsored through the Facility and as an attempt to institutionalize PEA as a diagnostic tool. Social Development Network of the Bank contributed to the momentum by publication of a report on network's lesson from the use of PEA in its operations. The Political Economy Community of Practice currently consisting of around 400 staff members serves as a platform for knowledge sharing and is the repository of the database on more than 300 specific PEA conducted in the Bank in 2005-2015.

4. DPF has evolved in part driven by Bank's recognition of the importance of political economy context for successful policy lending. By the end of 1990s a consensus had emerged that the Bank's adjustment lending operations, which mostly relied on high risk-high return structural reforms often representing first-best solutions, had under-delivered in many cases because of the failure to take political economy realities into account.⁶ As a result, a recognition emerged about ownership as a key ingredient for successful reform implementation. This was reflected in the reforms of the instrument in the early 2000s that channeled the energy in the Bank toward promoting nationally owned reform programs developed through participatory processes and consensus building.

5. Under the new model the emphasis is on understanding and promoting the ownership of country development strategies as the anchor for policy lending in their entirety rather than its various components and individual policy actions. This may explain why there are relatively few PEAs conducted explicitly for DPOs.⁷ Interestingly, the World Bank's Good Practice Framework does not discuss political economy analysis in the context of DPOs. Policy lending also draws on strong policy dialogue during program preparation that should generate insights about feasibility of reforms. Other analytical tools such as country economic memoranda (CEM), public expenditure review (PER), systematic country diagnostics (SCD), and poverty social impact assessment (PSIA) may also help with understanding of political economy context and

⁵ Based on a subset of World Bank borrowers that had a CPIA score below 4 in 2006. The list of countries with a decline in CPIA score includes several countries that experienced external shocks civil conflicts in recent years such as Yemen, Tunisia, and Mali. However, many other countries in the list that experienced a decline in CPIA, such as Tanzania, Ghana and Honduras were not subject to such major shocks and deterioration in institutional developments can be attributed to reform slippages and reversals.

⁶ Borrower Ownership of Adjustment Programs and the Political Economy of Reforms, World Bank Discussion Papers.

⁷ Preliminary interviews with Bank staff coordinating the Community of Practice indicated that there are not many PEA specifically conducted for DPOs in the database containing around 400 PEA products.

inform DPOs. Program documents, in addition, often provide insights about political economy considerations in their risks assessment section.

2. Rationale and Objective

6. The proposed Category 1 learning product will look at Bank’s experience in the use of political economy analysis for reform programs supported by DPOs. Its objective is to distill lessons from Bank’s use of political economy analysis for DPO design and implementation. There will be an effort to identify other sources or channels of PEA that are drawn on to inform DPF programs. This product builds on the momentum generated by the first reports in the series of learning products on DPOs launched by IEG in FY15.

3. Scope

7. The key issues addressed in the proposed LP concern extent and use of political economy analysis to inform DPF design and implementation. This will be addressed through the principle areas, synthesizing evidence from the evaluative sources identified in section 4.

- **What has been the extent of the use of political economy analysis for DPF?**
 - To what extent and what types of political economy analysis do DPOs draw on?
 - To what extent does risk assessment for DPOs reference and reflect relevant political economy context?
 - To what extent do Bank’s EWSs, SCDs and CPF’s risks assessment provide insights on political economy that can be used for DPOs?
- **How does PEA inform DPF design and implementation?**
 - How can good understanding of political economy context enhance DPF design both at entry (setting objectives, choosing policy areas, and identifying the engagement modality) and implementation?
 - How does the Bank use PEAs to inform the design of DPOs that support (controversial) reforms in electricity tariffs and agriculture subsidies with complex distributional issues? How can PEAs enhance the design and implementations of such DPOs?

4. Evaluative Sources

8. The analysis for addressing the issues presented above will draw on a synthesis of existing evaluative evidence from IEG evaluations and case studies, World Bank publications and other sources, as well as on limited number of supplementary case studies and reviews to generate more knowledge. It will in the first instance be informed by the other IEG LPs that have

been prepared on development finance operations. It will also draw on IEG’s 2011 evaluation of PEA in Support of the World Bank’s Governance and Anti-corruption strategy as well as the ongoing process evaluation of SCD and CPFs. The evaluation of SCD and CPFs is relevant because of the links between country strategies and DPOs and commonalities in types of analysis that the Bank uses to inform their design and implementation.

Specific evaluation sources will include the following:

- **Review of ICRRs and PPARs:** The team will conduct a review of all ICRRs of DPOs produced in 2012-2015 to collect and synthesize existing evaluative evidence on the use of PEA in DPOs. The learning product will also draw on several project level evaluations of DPOs with special focus on IEG’s recent work in countries with long-term DPF support, including completed evaluations of Tanzania, Uganda, and Vietnam DPOs, as well as the on-going joint evaluation of DPF support to Ghana.
- **Review and synthesis of existing case studies on PEA from various sources.** The team will review existing case studies on interaction of PEA and DPOs available from Bank’s and IEG’s publications, evaluations and research. The main focus will be on electricity and agriculture sector, and will include in-depth review of Senegal, Bangladesh, Zambia cases on electricity sector reforms, and the case of Ghana due to availability of evidence.
- **Review of special cases.** This will include in-depth review of existing evaluative evidence from ICRs, ICRRs and other sources on a number of DPOs representing special interest for the study, including i) 3 cases of termination of series (to be identified); ii) 4 cases of a large positive/negative CPIA changes in 2007-14 in countries where Bank had long-term engagement through DPOs (Rwanda, Burundi, Ghana, and Tanzania,); and iii) 4 cases of high and low IEG outcome rating (Peru Fiscal Management, Latvia Financial Sector, Indonesia Infrastructure DPO, Ghana Agriculture DPO). The case studies will be mostly a review of ICRs and ICRRs focus on the use of PEA in DPOs and the implications for their design and implementation.
- In addition to the review of existing evaluative evidence the team will conduct a supplementary Portfolio review of PEAs and DPOs. The database containing more than 300 PEA products will be used to identify reports that might have informed DPOs including PEAs that were specifically prepared for DPOs or cover policy areas central to DPO design.⁸ In addition a review of randomly selected DPOs will be done for 30-40 DPOs to identify and document the use of PEA, including its type and areas covered.

9. This approach largely follows the methodology used in the previous learning products on results framework and PER, drawn primarily on existing evaluative evidence, supplemented in targeted areas.

⁸ This work will be done recognizing the confidentiality of the work covered in this database.

5. Quality Assurance, Timeline and Audience

10. The primary stakeholders and the audience are Bank’s management, OPCS, GPs and Bank teams and TTLs working on DPOs, as well as Bank’s clients, multilateral and bilateral agencies working on budget support and policy lending.

11. IEG has extensive experience with validating and evaluating budget support operations and Country Program Evaluations, and recent DPF learning products provide a platform for deeper cross-cutting lessons on DPF design and implementation. No specific risks to undertaking this work now are apparent. Undertaking this work as a programmatic series increases IEG’s ability to delivery relevant and on-time inputs to strategic discussions in the WBG.

12. The task will be overseen by Nick York, Director, and Mark Sundberg, Manager, of IEGEC. Peer reviewers are Robert Beschel (Governance Practice Group), and Brian Levy (Johns Hopkins School of Advanced International Studies). The critical skills required for this task include a deep understanding of Bank’s engagement with countries through DPOs, and knowledge in development, coordination, and implementation of diagnostics and operations.

13. The task team will be led by Aghassi Mkrtychyan, and will include a consultant with experience in Bank’s diagnostics (to be identified) and a research analyst. The team will be supplemented with sector specialists as needed (see Annex 3 and 4 for details).

14. The main outputs will be a report (20-25 pages of the main text) summarizing the key findings, and relevant and analytical annexes, and a PPT presentation summarizing key findings, which will be used in dissemination.

Attachment 1

References

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- _____. 2011. *Good Practice Note for Development Policy Lending*, Washington, DC.

Attachment 2

Detailed Timeline

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Item	Date
IEG One-Stop Review for Approach Paper (virtual)	January 28, 2016
Data gathering, case studies and other analysis	February - April 2016
First draft	May 15, 2016
IEG One-Stop Review for Report	May 27, 2016
Report finalized and distributed to CODE	June 21, 2017

Attachment 3

Team and Skills Mix

Team composition:

- Aghassi Mkrtyan (team leader): 12 staff weeks
- Consultants: 4 staff weeks
- Research Assistant: 4 staff weeks

Attachment 4

CPIA trends and DPF

IEG has looked at CPIA performance in 2006-2013 for clients with access to DPF. This was done for the subset of countries that had a CPIA score of less than 4 in 2006. 22 out of 48 countries (i.e. 45 percent) that received at least one DPO in 2006-2013 period have experienced a decline in the overall CPIA score. Eight out of 15 countries with six or more DPOs in 2006-2013 period have seen a negative change in their CPIA score. There could be various reasons for a decline in CPIA in general and for countries with DPF access in particular such as political upheavals, military conflicts, difficult trade-offs countries face during crisis, lack of sustainability of the earlier reforms and general deterioration in the quality of governance for possible other reasons.

CPIA performance varies for countries with low (less than 3.2 score in 2006) and medium (between 3.2 and 4) initial CPIA ratings. As the chart below indicates low CPIA countries have on average experienced an increase in the CPIA score. This is also true for low CPIA countries with access to DPF. In contrast, average CPIA performance of medium CPIA countries (with or without DPF) have been less favorable.

Figure 1. Change in CPIA in 2006-2013

