

# Political Economy Analysis Workshop

## Session on “General Background and Purpose of Workshop”

Gambhir Bhatta  
SARC, and Governance CoP

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"Yeah, I see him too...But nobody wants to talk about it!"

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# Things to cover

1. Why study PE now at ADB?

2. What does PE mean?

3. What tends to be covered?

4. What have we done so far?

5. What's the purpose of this workshop?

6. Finally, how is the workshop structured?

# But first, some home-grown truths (*from that other Bank*)

- o “Politics has more to do with change than economics, but **We are not yet ready to let politics out of the closet.**”
- o “We tend to focus on best practice solutions rather than best local fit. **The ideology of best practice reigns** regardless of local context.”
- o “Lack of understanding of the political economy of reform is increasingly seen as a **risk** to development effectiveness...”\*

# And, do these look familiar? (*from THIS Bank as well*)

"Government grants higher autonomy to water utilities"

"High turnover of staff undermines institutional capacity development"

"Active support from other government agencies"

"The government remains committed to mainstream climate change and to reduce poverty"

LGED remains committed to apply required knowledge

"No delays in government approval"

"Conducive political environment to improve system capacity is absent"

# Why consider Political Economy Analysis now at ADB?

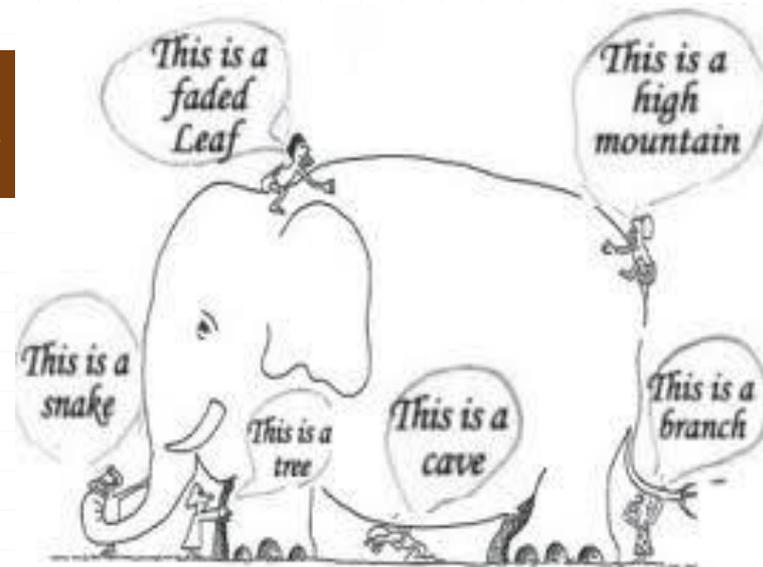
- Request by ADF X donors\*
- The Board encourages it
- Governance CoP work on political economy
- Link to GACAP II

# What political economy means

Study of economies of states (polities), hence the term

A “good description” of what PE means:  
*“... all the many activities of cooperation, conflict and negotiation involved in decisions about the use, production, and distribution of resources”\**

Basically, an interdisciplinary approach to explain how political institutions, political environment, and economic system influence each other



## JEL classification code for PE

- Role of government (and/or power relationships in resource allocation)
- International political economy (economic impacts of international relations)
- Economic models** of political processes

# What tends to get covered in a PE Analysis?

Area of coverage	Examples from South Asia
Historical context	History of north and northeast ( <i>Sri Lanka</i> ), Maoist insurgency ( <i>Nepal</i> )
Political context	Weak political parties ( <i>Nepal</i> ); inter-governmental relationships ( <i>India</i> ); BNP-AL rivalry ( <i>B'desh</i> )
Economic context	Global economic crisis and tourism hits ( <i>Maldives</i> )
Values, ideas, development philosophy	<i>Bhutan's</i> Gross National Happiness
Power relationships	Among political parties ( <i>B'desh</i> ), judiciary-executive tussles, trade unions, civil society, media, etc.
Policy environment	Difficulty of subsidy removals in <i>Nepal</i>
Binding constraints	<i>Bhutan</i> ,* <i>Nepal</i> ...

# Three other things that go into the PEA...

1. Implementation issues
2. Institutions (formal and informal) and institutional capacity building

	Institutions	Organizations
Formal	Policies, laws, regulations, guidelines, codes, standards, ...	Executive agencies, parliament, judiciary, private sector, NGOs, ...
Informal	Customs, beliefs, norms, values, historical experiences, practices, ...	Traditional leaders, pressure groups, religious groups, clans, social clubs, community watchdog committees, ...



3. Stakeholders and their interests and incentives

# What has ADB done thus far on this?

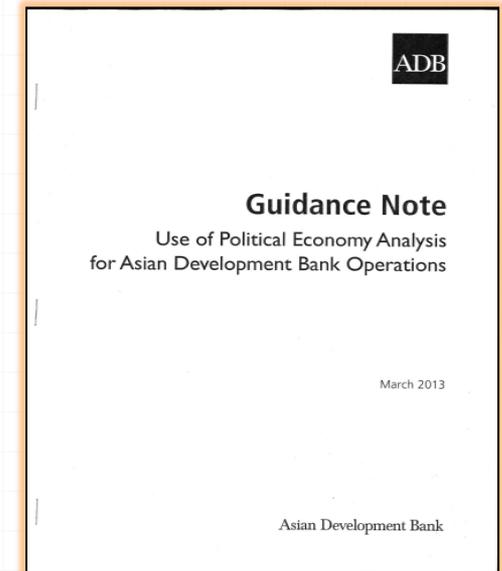
Issued the guidance note on political economy analysis

Carried out PEA at various levels:

- CPSs (Philippines, being done for Armenia)
- Sector level analysis (road sector in PNG)
- Policy dialogue and policy-based lending (in PARD countries)

However,

*GACAP II and GRA still the bread and butter approach taken*



# What's the purpose of the workshop?

Collectively develop a toolkit on how to carry out a PEA

2 main terms:

1. Collectively



2. Toolkit



# How's the workshop structured?

- o Discussions on Day 1 on GACAP II vs PEA
- o Development of the toolkit on Day 2

## Main question:

***“ADB has been encouraged to incorporate PEA into its work. We now have five years of experience of GACAP II implementation. PEA is broader than—but related to—GACAP II concept and methodology. What is the most practical way forward in this exercise?”***

# Finding the proper balance...

Para 2 of Article  
36 of ADB's  
Charter  
("Prohibition of  
political activity")

*"Only economic  
considerations  
shall be relevant  
to the(ir)  
decisions" (to  
provide  
assistance to a  
DMC)*



*"There is  
increasing  
recognition ...  
that  
development  
is  
fundamentally  
a political  
process in key  
respects" –  
DfID, WB*

*"However much governments and donors might want to shy away from it, policy reform is inherently political and contentious."*

M. Grindle

So, back to the main question...

*“PEA is broader than—but related to—GACAP II concept and methodology. What is the most practical way forward in this exercise?”*