

The Elephant in the Room: Political Economy Issues in ADB Work (with examples from South Asia)

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's in a PE Analysis?

4. Things to keep in mind...

5. What ADB has done on this so far

6. Next steps

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

“The WHAT economy?”

You’d be surprised at its coverage...



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...”*

Some home-grown truths (*from THIS Bank as well*)

- o *"This is the weakest policy matrix I've seen in my time at ADB"*
 - An OGC staff member, back in 2007
- o Do these sound familiar?

"High turnover of staff undermines institutional capacity development"

"Active support from other government agencies"

"Government grants higher autonomy to water utilities"

"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"

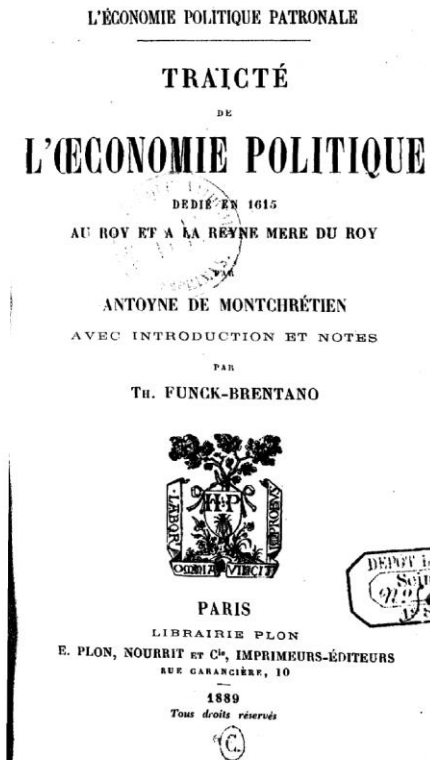
Origins of political economy

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

1615: the phrase *économie politique* first appeared in France with Antoine de Montchretien's *Traité de l'économie politique*

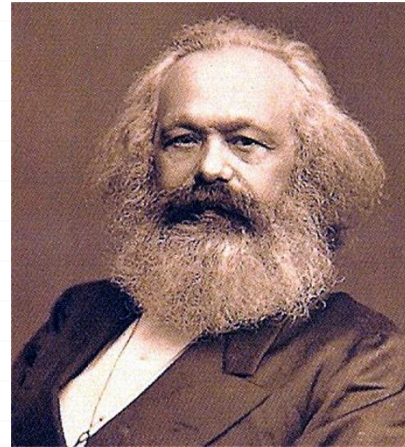
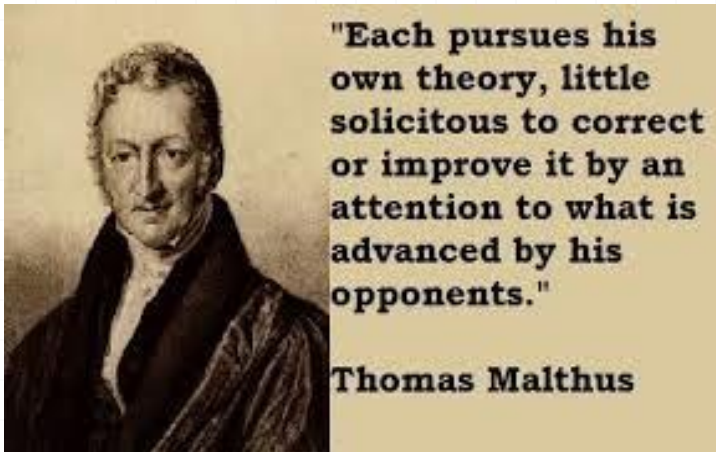


1776: Adam Smith's *The Wealth of Nations* (in 1896, the Adam Smith chair of political economy was established at the University of Glasgow)



Two other well-known individuals...

1805: Thomas Malthus;
England's first professor
of political economy, at
the East India Company
College



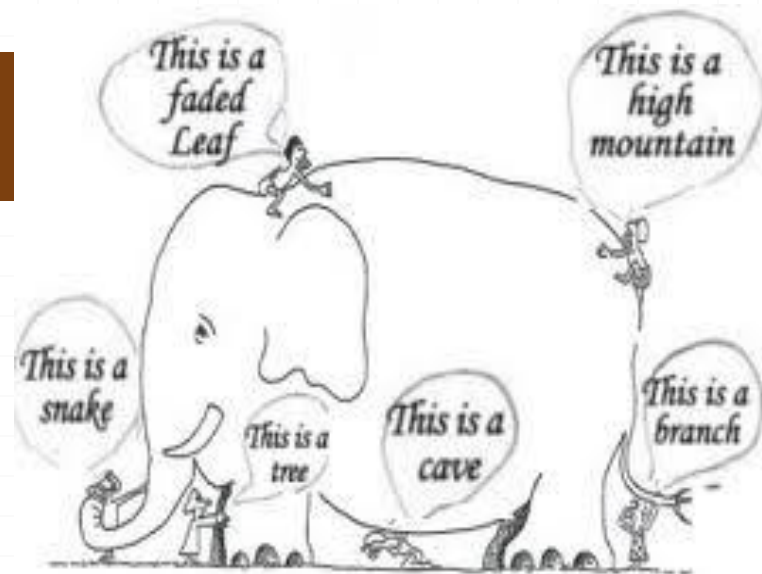
1867: Karl Marx's
*Capital: Critique of
Political Economy*



What political economy means

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

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

So, what gets 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>)
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 (eg, in <i>Bangladesh</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> ...

Continued...

Three other things that go into the PEA...

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

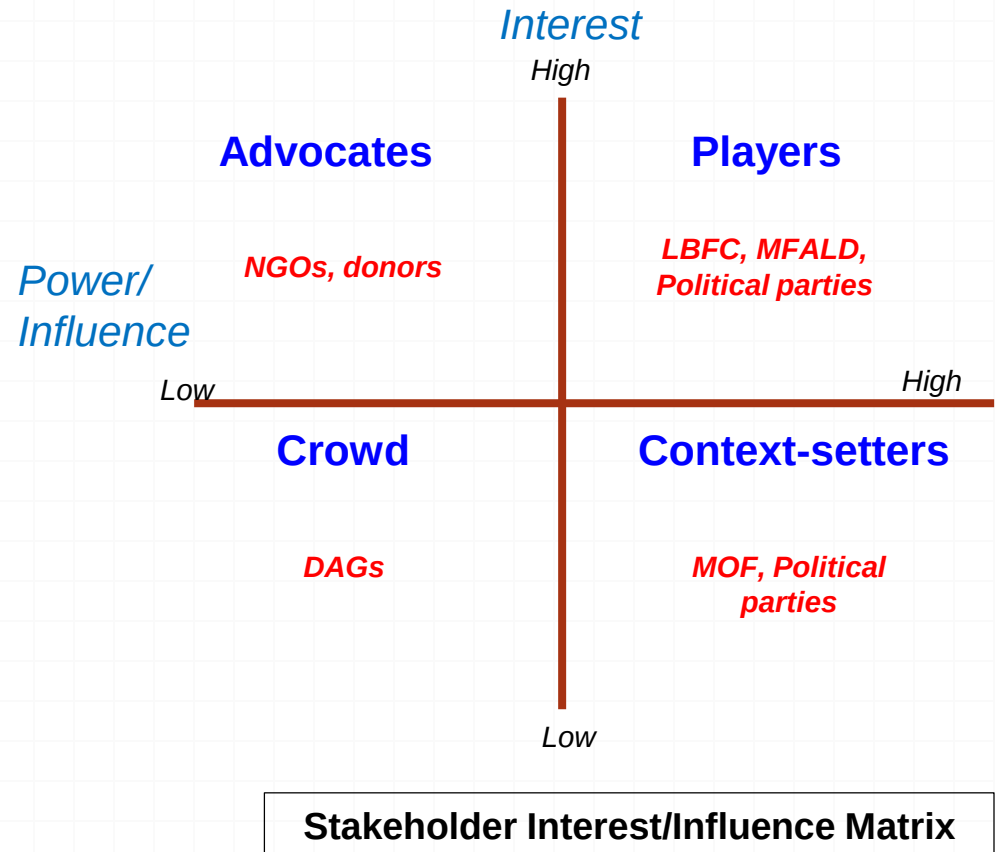
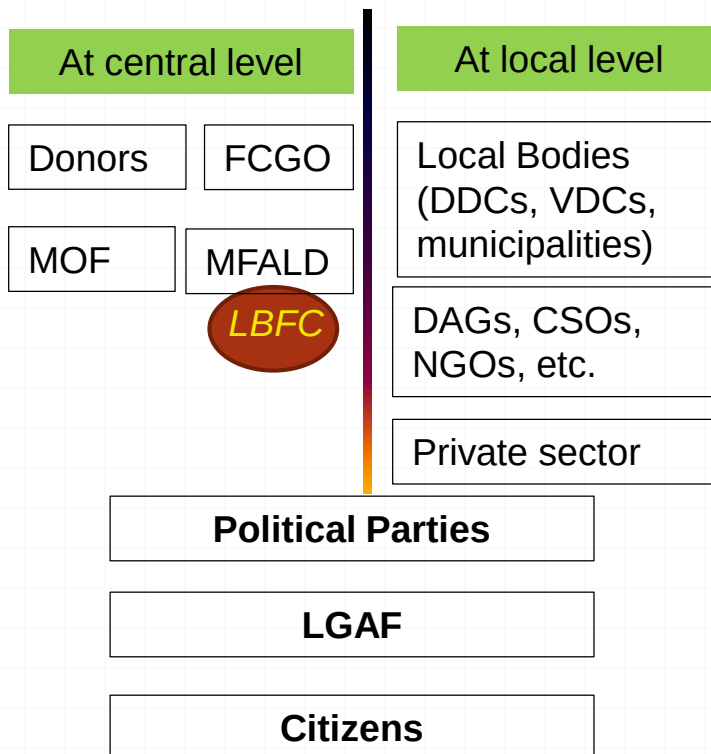
	Institutions	Organizations
Formal	Policies, laws, regulations, guidelines, codes, standards, ...	Executive agencies, parliament, judiciary, private sector, NGOs, ...
Informal	Customs, beliefs, norms, values, historical experiences, practices, ...	Traditional leaders, pressure groups, religious groups,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



3. Stakeholders and their interests and incentives

Also look at the interest and influence of stakeholders...

Example: Program on fiscal transfers in Nepal



Issues to note in carrying out a PEA

- Bring governments and others on board...
- Understand the country context
- Gain a real-world and pragmatic view of what is possible
 - political feasibility of reforms → *“good enough governance”*
- Consider issues of credible commitment, transaction costs, rules of the game, etc.



“... good governance is deeply problematic as a guide to development” – Merilee Grindle, KSG, Harvard

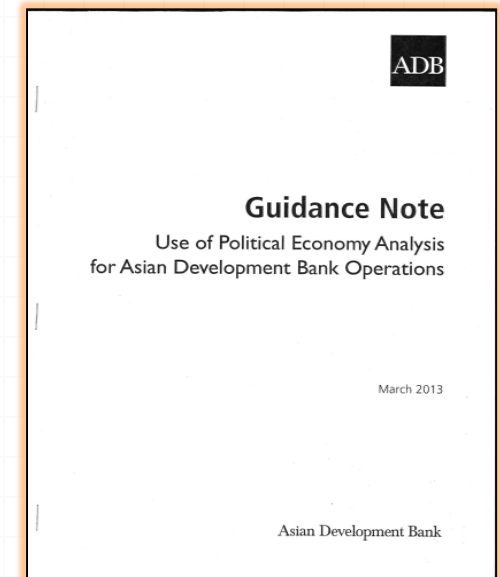


What has ADB done thus far on this?

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

How other partners approach this...



Community of Practice on PE; poverty and social impact analysis approach(1); problem-driven governance and political economy analysis framework(2); training on this



“Political economy with legitimacy”



“Driver of change” analysis (3)



Power analysis (to understand who has access to decision-making space)



Strategic Governance & Corruption Analysis(4)



Focus on informal values, norms, etc.

Commonalities among all these:

1. Centrality of politics
2. From “international good practices” to “good local fit”
3. Identifying underlying factors (eg, local history, geography, etc.)
4. Focusing on institutions to determine incentive framework
5. Recognizing that development agencies are political actors.

What are we considering now...

- GACAP II implementation review
- PEA manual for use by staff
- Debate on how to reconcile PEA with GRA

The approach formerly known as
GACAP II



PEA at country level (CPS)
Revised GRA* at sector level
RA at project/program level

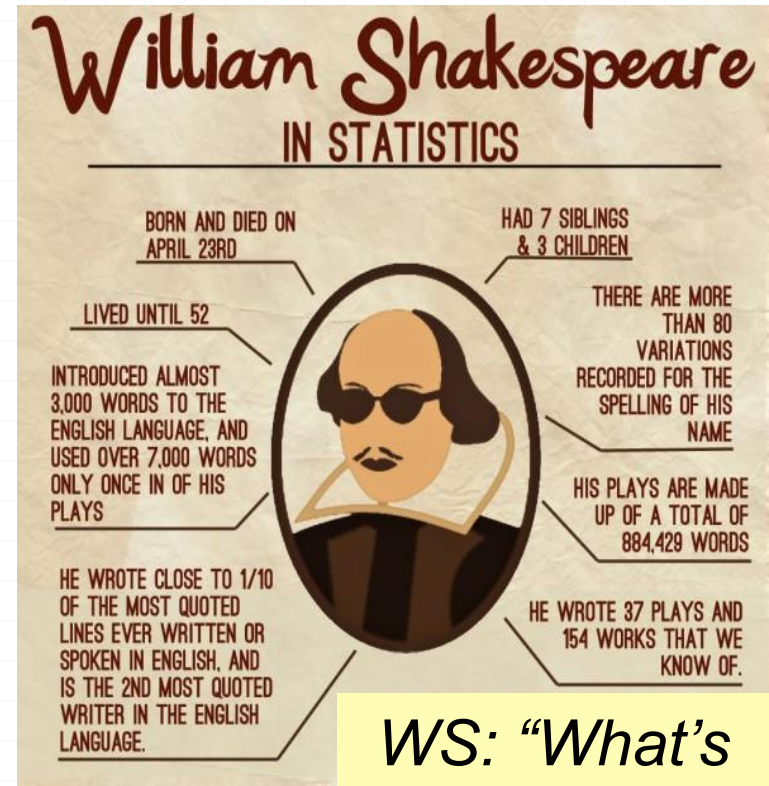
The Artist formerly
known as Prince...



**Revised GRA = relevant parts of PEA + standard GRA*

Issues to resolve

- o Approaching DMC governments with terms such as “political” “governance”, “corruption risks”, etc.
- o Engage with staff members – the operative principle should be: *reduce transaction costs to staff*
- o Retain knowledge in ADB – but how?



WS: “What’s in a name?”

GB: “Everything, Mr. Shakespeare; everything”

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

Next Steps

Next steps:

1. PEA workshop in October
2. Preparation of a “how-to” manual
3. Further training to interested staff in successive periods

10-member informal team at ADB working on this:

(From CWRD, IED, PARD, PHCO, PLCO, RSDD, SARD, SERD, SPSO)

Question for discussion:

Is political economy analysis desirable/possible for ADB programming? If so, how should it be carried out?