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Political Economy in Practice:
Lessons from the Field

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COMMUNITY OF PRACTICE

SOCIAL DEVELOPMENT

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Lessons from the Field

Social Development Department
Sustainable Development Network
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1818 H Street NW
Washington DC 20433
Telephone: 202-473-1000
Web site: www.worldbank.org/socialdevelopment
E-mail: socialdevelopment@worldbank.org

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Executive Summary

This note synthesizes the experience of three political economy case studies: the water sector in West Bank and Gaza, the bus sector in Dhaka, Bangladesh, and the port sector in Chittagong, Bangladesh. The objective is to describe (i) the process of conducting these types of studies, and (ii) how recommendations which have a higher chance of feeding into reforms or operations can be developed. It is hoped that these insights will be useful for development practitioners and operational teams who are considering conducting political economy studies.

It is increasingly accepted that better understanding and management of the political economy of policy reforms can help development agencies, including the World Bank, refine policy advice and operational support in partner countries. Support of reforms which are technically feasible and politically acceptable, while simultaneously promoting a poverty reduction agenda, remains a core challenge for the World Bank. It is anticipated that the additional time and effort put into political economy work will often translate into improved design and implementation of sector reforms and operations, and thus increase their effectiveness.

The note argues that the process of how a study is conducted has important implications for the take-up of its recommendations. It illustrates lessons for operational teams and development practitioners on conducting political economy work, which are often not covered in published political economy reports. Finally, it shows that certain obstacles need to be anticipated when translating political economy recommendations into design of operations and illustrates, through the case studies, how they can (sometimes) be addressed.

To frame the discussion, the note relies on the Political Economy of Reform Framework, which draws on the Poverty and Social Impact Analysis (PSIA) approach.

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Acronyms and Abbreviations

AFD	Agence Française de Développement
BRTR	Bus Rapid Transport Route
CAS	Country Assistance Strategy
CASE	Clean Air & Sustainable Environment
CIDA	Canadian International Development Agency
CMU	Country Management Unit
CPA	Chittagong Port Authority
CommGAP	Communication for Governance & Accountability Program
DEC	Development Economics Department
DFID	UK Department for International Development
ESW	Economic and Sector Work
FGD	Focus Group Discussion
GDP	Gross Domestic Product
IEG	Internal Evaluation Group
M&A	Movement and Access
NGO	Non-governmental organization
ORAF	Operational Risk Assessment Framework
PA	Palestinian Authority
PE	Political Economy
PGPE	Problem-driven Governance and Political Economy Analysis
PREM	Poverty Reduction and Economic Management (World Bank department)
PSIA	Poverty and Social Impact Analysis
PWA	Palestinian Water Authority
SDV	Social Development Department anchor (World Bank department)
SGACA	Strategic Governance And Corruption Analysis
SIDA	Swedish International Development Cooperation Agency
TA	Technical Assistance
TOR	Terms of Reference
UNDP	United Nations Development Program
WBG	West Bank and Gaza

1. Introduction

1.1 Political Economy and the World Bank

Political economy has risen on the development agenda. Political economy (PE) concerns are nowadays frequently voiced by development agencies within the context of aid effectiveness. The World Bank, DFID, the European Commission, and the Netherlands (SGACA initiative), are among those who have devoted significant attention to the issue. Yet, while there is a large body of academic literature on PE spanning a range of disciplines, only in the past decade has the importance of putting the concept into practice been truly appreciated. The issue is now firmly on the development agenda, reflected by a growing number of standalone PE studies and frequent presentations, seminars and other events held at donor agencies, including the World Bank. Numerous studies have been produced by the Bank[1] – many of which address PE issues from an operational and reform perspective.

There is a growing consensus on the value of understanding political economy. The value of PE work has thus become increasingly recognized and accepted as a key input in World Bank operations[2]. This is especially the case where fiduciary and reputational implementation risks are perceived to be high.[3] When technical recommendations fail to gain traction or policies fail to be implemented, unidentified and unmanaged PE issues are often an underlying factor.

Box 1. Political Economy – a definition

In its original use in academic literature, 'political economy' referred simply to the application of economic principles to the practice of public policy of nations states (see work by Adam Smith, David Ricardo and Karl Marx). We follow the current common understanding of political economy as referring to interdisciplinary studies that draw upon social and political theory, as well as economic principles to understand how political actors, institutions and economic processes influence each other and the allocation of resources.

Better understanding of political economy issues has the potential to improve development effectiveness. It has therefore been proposed that the effectiveness of Bank operations can be improved with better understanding and management of the political-economy environment in which it operates (IEG 2006, IEG 2008). This coincides with a growing awareness among development practitioners that PE factors play a decisive role in influencing the design and implementation of sector policy reforms to support economic growth and improve livelihoods, as well as in shaping a country's overall development path.

[1] PE studies, research reports and academic papers can be found at: http://go.worldbank.org/R9CMS80PY0

[2] The term 'operations' refers to the activities supported, or engaged in, by the World Bank in member countries, and includes investment lending for projects as well as development policy lending for policy reforms. Aside from operations, the Bank offers an array of analytic and advisory services. PSIA and PE studies are examples of this.

[3] It is also closely linked with the World Bank's Operational Risk Assessment Framework (ORAF), which identifies four risk categories: i) project stakeholder risks; ii) operating environment risks; iii) implementing agencies risks; and iv) project risks.

Political economy work must grapple with the horns of the trilemma - poverty reduction, technical feasibility, and political acceptability. While it has much to offer, putting PE understanding into practice also raises challenging new issues. Support of reforms which are technically feasible and politically acceptable, while simultaneously promoting a poverty reduction agenda, remains a core challenge for the World Bank. This becomes the trilemma, as even a basic understanding of PE suffices to appreciate the conundrum: **technically well-conceived or pro-poor reforms are likely to be blocked, or implemented half-heartedly if they imply disadvantage (such as loss of rent opportunities and influence) for those in positions of power.** By definition, reforms disrupt the status quo and powerful interests who expect to lose out may try to leverage their influence to block or derail reforms, or bend them to serve their own interests. It is safe to say that this risk exists, to varying degrees, in most countries, regardless of their population's welfare status. While the poor comprise one of the least influential groups in society, the Bank's main client is considered the central government, which usually is comprised of and linked to well-connected elites.[4] Their fortunes are not necessarily tied to the well-being of the masses, all the less so if state-society accountability is weak, as is typically the case in countries with a history of authoritarian government and/or controlled elections.

Technical and political economy analysis—a critical but oft-neglected relationship. When designing and implementing reforms is the goal, technical feasibility can rarely be considered in isolation from political acceptability[5]. Many reforms which appear optimal from a technical design perspective may often not be realistic in a political sense. (This can often be attributed, at least in part, to weak or non-existent collaboration between technical sector specialists and PE specialists.) A good understanding of PE dynamics would reduce the probability of sidelining powerful interests or neglecting social concerns without jeopardizing reform outcomes.

Box 2. Political Economy Analysis

Political economy can be analyzed through a variety of analytical lenses, including stakeholder analysis, institutional and governance analysis, distributional impact analysis (winners and losers, cost-benefit analysis), historical analysis, analysis of rents, risk assessments, game theory, and so on. In World Bank PE studies, a combination of different types of analyses has proven particularly effective.

Addressing political economy issues to reduce risks of operational failure and promote welfare gains. All too often the World Bank and other development partners put significant time and funding into operations that aim to promote reforms, only to see them stall during the design or implementation phase. Our argument for engaging in PE work is thus driven by three overarching concerns: i) risk of reform or program failure; ii) the suboptimal use of development funds, which could have been better utilized elsewhere; and iii) inequitable allocation of resources, disadvantaging poor and marginalized stakeholder groups. Poverty reduction goals

[4] The World Bank is composed of member countries. Whether they are solely represented by their governments, or by broader stakeholder groupings is subject to interpretation and debate.

[5] In this study, 'technical feasibility' refers to the economic, financial, fiduciary, social and environmental aspects, as well as technical design and implementation issues. 'Political acceptability' refers to a policy, supported by decision makers, because they have calculated that it will be acceptable to a sufficient number of people or groups.

become difficult to attain when vested interests – in the form of powerful business interests or policymakers – block policy reforms because they want to retain the status quo.[6]

Expanding analysis from economic and social impacts to political impacts. Within the World Bank, PE-type research has been carried out in different contexts by various departments over a number of years. One of these approaches is Poverty and Social Impact Analysis (PSIA)[7], which has been used by the Bank and other agencies since 2001. Frequently, PSIA work dovetails with PE issues, since both focus on distributional issues among so-called 'winners' and 'losers'. Yet, while many PSIAs do cover stakeholder and institutional analysis, in the past they focused mainly on the distribution of welfare impacts, looking primarily at social and economic impacts. Nonetheless, some PSIAs, conducted as early as 2003, did incorporate PE analysis, looking at the distribution of power as well.[8] When the distribution of equity and political power are assessed in parallel, the competition of powerful and less powerful interests over scarce resources and authority becomes more visible, as do their incentives and degree of influence in maintaining the status quo versus supporting policy reforms. Knowing this context is important for designing and implementing more equitable and sustainable operations or policy reforms.

Diagnostic and Action Framework for the Political Economy of Reform. In addition to a range of analytic tools, available in a sourcebook, *Tools for Institutional, Political and Social Analysis (TIPS)* (World Bank 2007), the World Bank's Social Development Department has developed a Political Economy of Reform Framework (World Bank 2008a). The framework was developed inductively *from* operations *for* operations, to contribute to better operational understanding and management of PE issues in sector work.

The focus on political economy work in operations arose from a confluence of initiatives. Several teams within the World Bank, including the Social Development Department, have tackled the problem of systematically analyzing the PE environment surrounding reform processes and Bank operations. Aside from the Political Economy of Reform Framework, the PREM network, for instance, has also developed an analytical framework, "Problem-Driven Governance and Political Economy Analysis" (PGPE) (Fritz, Kaiser & Levy 2009). As a new concept, operational experiences are still emerging, as the PGPE framework is currently being tested in the field. In addition, a core group of Bank staff have joined to create a Political Economy Community of Practice (CoP), which has recognized both frameworks[9]. The CoP also works through various PE approaches as practiced by colleagues in e.g. DEC, WBI, CommGap, regional units, and others.[10]

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[6] It should be noted that governments generally welcome 'pro-poor' projects or development policy loans (DPLs), but not always from a pro-poor motivation. Projects and DPLs result in millions of dollars in donor funds, some of which are not always used for their intended purposes.

[7] PSIA studies are most often led by the Poverty Reduction and Economic Management (PREM) and Social Development departments at the World Bank.

[8] PSIAs with a PE focus include: Albania Water Sector Privatization and Decentralization; A PSIA of the Mining Sector Reform in Romania; Serbia RTB Bor Labor and Welfare Impact Study; Tajikistan Welfare Implications of Cotton Farmland Privatization PSIA; Crop Boards and the Future Prospects for Agricultural Exports of Tanzania.

[9] Those considering a PE study may want to familiarize themselves with each framework before deciding which one to apply or whether to combine elements of each.

[10] The CoP has generated a PE 'Menu of Products', outlining three types of PE products that aim to ensure that PE analysis and resulting recommendations are built around operational needs and cycles, including for project/sector team support and process support. http://gacknowledge.worldbank.org/pe/default.htm.

The structure of this note: Following the introduction, Section 2 illustrates the Political Economy of Reform Framework. Section 3 summarizes the three case studies: West and Bank Gaza Integrated Water sector; a two-phase Chittagong Port (Bangladesh) study, and the Dhaka bus sector (Bangladesh). These illustrate how the Political Economy Framework for Policy Reform can help better understand and manage PE factors when designing and implementing sector reforms and operations. Section 4 summarizes lessons derived from the process of conducting operational PE work.

1.2 Objectives

The components of political economy analysis and how such a study can be used in practice. The note's objective is to describe, first, the components of a sector-based PE analysis, and second, how this analysis can be translated into recommendations that inform reforms and operations. It is hoped that this can help Bank teams in formulating their approach towards policy advice and operational support for partner countries. The note draws on these experiences to illustrate how the PE Framework components are used in practice.

How political economy analysis with operational relevance can be conducted. Currently, there is relatively little material synthesizing lessons drawn from practice, i.e. the experience of conducting PE analysis and using it to influence policy reform dialogue. This note is an attempt to at least partially fill that gap by reviewing the process of implementing PE studies to actively inform development projects or policy reforms. (This is not the same as assessing the *impact* of PE studies on reforms, a far more ambitious and analytically challenging undertaking).

A reference, not a set of instructions, to organize analytical work, and inform policy dialogue. The review is not an evaluation of PE methodologies, nor is it a comprehensive set of guidelines on conducting PE analysis. Instead, it aims to demonstrate

i. How elements of PE sector analysis fit together in a more systematic way;
ii. How task teams – when maneuvering through the complex economic and political environment during operational design and implementation - can engage in a policy dialogue with partner countries; and
iii. How task teams can use PE analysis to develop recommendations that can be translated into reforms or operations.

For additional suggestions on conducting PE studies, readers are referred to a 'How To Note' for 'Political Economy Assessments at Sector and Project Levels' (World Bank, forthcoming-b).

There are no easy solutions or ready-made templates to follow, and each PE case encountered may well be so different from others that it will need to be assessed on its own. Nonetheless, it is hoped that the 'real life' examples provided here can help development practitioners and operational Bank teams in thinking through similar problems faced in other sectors and other countries.

Main target audience – practitioners, managers and operational teams. Although it is hoped that any student of development effectiveness will find something of interest here, this note was originally conceived with primarily two groups in mind: (i) development practitioners interested in the process of conducting PE analysis and translating it into the operational context of partner

countries; and (ii) managers and operational Bank task teams, to help them understand what PE work comprises and how it relates to the issues they face in their work.

1.3 Methodology

How the note was prepared. The synthesis note is based on a review of the three case studies, interviews with persons involved in the studies, and the experience of two of the authors who led them[11]. The case studies were selected based on their operational linkages, cooperation with the sector team, and a diversity of sectors.[12] Some of the information referred to in this note is not found in the published reports on which it is based. This is because we mainly focus on the *process* of implementing the studies, as opposed to findings and analysis, which are the subject of the case study reports themselves. The studies are juxtaposed against the PE Framework to help orient the reader and provide a more systematic way of understanding and managing the political economy of reform, as well as setting up a strategy and choosing a methodology for approaching PE issues.

How the case studies were conducted. The studies comprised primary and secondary research 'in country', including focus groups, key-informant interviews, and small surveys, as well as desk reviews of existing material. The case study teams interacted directly with operational task teams and in-country stakeholders. Analytically, the case studies relied on qualitative data. They assessed stakeholder characteristics, interests, incentives and degree of influence; formal and informal institutions; a variety of impacts; risks and opportunities, while the study teams engaged in stakeholder dialogue to the extent this was feasible.

[11] Nilufar Ahmad for the Bangladesh cases, and Sabine Beddies for the West Bank and Gaza case.
[12] A fourth case study, on waste management in Andhra Pradesh, is not included because the government requested that the researchers not look at political economy issues in urban environments (the only environments where they truly mattered), out of concern for the effect on upcoming elections. Hence, the Andhra Pradesh study's scope was limited to rural areas, and its focus became social and technical issues, rather than political economy issues.

2. Political Economy of Reform Framework

The Diagnostic Framework informs an Action Framework. The Diagnostic Framework is built on social analysis tools derived from conducting PSIA studies (see, especially, World Bank 2007) and distinguishes between three elements: the Reform Context, the Reform Arena and the Reform Process. These diagnostic elements help to generate actions, illustrated in an Action Framework – the fulcrum on which analysis can be leveraged into operations.

2.1 Reform context

The **reform context** is the 'given'. It is a static element (at least in the short to medium term), which includes a country's socio-economic, political, cultural and historical characteristics, its development trajectory and the current development aid architecture. Analyzing the reform context involves looking at political processes within the sector, and the potential links to national political institutions and stakeholders. Another key element of the reform context is the reform agenda itself – what it comprises, what assumptions underpin it, how and why it was tabled, and by whom.

To use a sports metaphor, the reform context can be considered the stadium in which development takes place. The number of seats and their proximity to the action, number of exits, type of construction, levels of maintenance, etc. are all aspects which describe the context and can influence what happens both on and off the field.

2.2 Reform arena

The **reform arena** comprises the institutions that govern relations and behavior within the sector in question, as well as the stakeholders with their social, economic and political interests that both drive and are affected by policy reforms.

The reform arena can be thought of as the field where i) the players and referees interact with each other to play a specific type of game, such as football or cricket, and ii) the particular rules of the game, both formal and informal, used in play. While the context (the stadium) is more or less fixed, what happens in the arena (the field) depends very much on who is playing which game and with whom, the relative skill and power of different players, what rules are applied (and whether they are followed), the independence and integrity of the referee, etc.

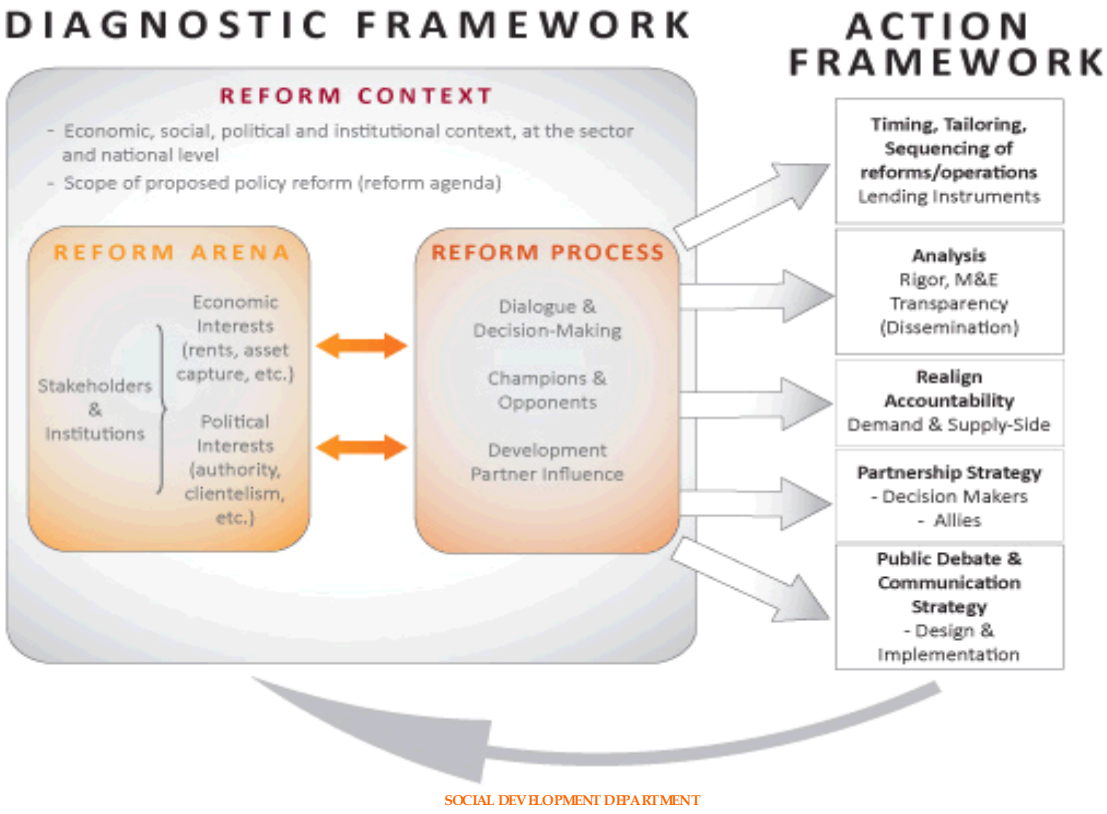
2.3 Reform process

If the reform context is static, and the reform arena encompasses the agents and determinants of change, the **reform process** is dynamic, embodying the potential for change itself. It refers to how information flows, between whom it flows, and whether and how it influences policy debate. It encompasses coalition building, participation, transparency, and communication between various actors throughout the design and implementation period of policy change.

This is how the game, or a series of matches over the course of a season, is played. There may be a pro-reform team playing an anti-reform team, or two teams playing for different reforms. In any case, each

team is in competition to achieve a preferred outcome. The PE analysis can be thought of as a tool which informs game strategy, by promoting a specific outcome, e.g. more equitable distribution of resources, or by making compromise possible. Clearly, changing the rules of the game is more difficult than finding strategies to promote a generally beneficial outcome.

Figure 2: Political Economy of Reform Framework



Source: World Bank (2008), p. 10

2.4 Action Framework

In the development field, it is recognized that the value of a study and its recommendations is largely determined by the extent to which they inform policy or operations, i.e. actions. After analyzing the reform arena, context and process, it remains to develop both technically feasible and politically acceptable recommendations. (The next step, translating recommendations into actual reform or operational actions, is not covered by this note). **This process does not happen on its own and requires considerable effort; it is not a straightforward exercise and a multi-pronged approach is advised.**

The **action framework** outlines a series of operational steps that study teams can consider to systematically manage PE dimensions during the analysis stage. The specific elements of the framework deemed most appropriate and useful, as well as the relevance and utility of a given action, will depend on the country and reform context.

i) *Timing, tailoring and sequencing of reforms/operations* to a given country context and local capacities can substantially influence their success or failure. Ignoring political developments or the election calendar can undo technically sound reforms, and doom projects to failure. In the final accounting, the country will still need to pay off its loan to the donor, even if it failed to produce the desired results. (While debt forgiveness raises an entirely new set of PE issues.)

ii) *Strategic dissemination of rigorous analytical work* is important in informing stakeholders if it is to be accepted and utilized. Transparency in disseminating findings is also important, but this must be balanced with an appreciation for how stakeholders will react. Reports overly (or overtly) critical of government stakeholders may be disparaged in an effort to undermine the credibility of the methodology and findings, or the suppression of the findings.

iii) *Focus on realigning accountability.* In sector reforms, there is often a need to combine top-down accountability with bottom-up accountability. Bottom-up accountability can be strengthened through participatory decision-making for resource allocation, or by formalizing feedback mechanisms. Institutional shifts in authority and power may be able to address issues of sector capture by vested interests. Decentralization is an example of a fundamental shift which transfers accountability downward. Community engagement in development operations is an example of shifting accountability upwards. If appropriate, a PE study should include recommendations in this area.

iv) *Partnership strategy.* Partnership is a mode of interaction referring to two or more partners who agree to collaborate on making the reform work. More than participation, it is based on listening and learning, more emphasis on participatory approaches for improved communication; and valuing and using local expertise wherever feasible. Ways of cooperating with the client and other stakeholders should be incorporated into recommendations.

v) *Public debate and communications.* Incorporating a strategy for public debate and dissemination of results should be considered early on by the study managers. Although not always feasible, involving the public stakeholders in the policy debate and sharing information to promote transparency between stakeholders can be critical during the negotiation process for reforms or operations. When stakeholder concerns are proactively addressed during the policy discussions and their inputs directly integrated into operational design, the risk of significant opposition can be reduced.

Finally, allocating sufficient attention and resources to translate PE study recommendations into reforms and design of operations can make a significant difference. Without continued engagement of the study team with operational and/or reform teams *after* the study is over, PE study recommendations are often unlikely to be taken up. While discussion of this stage is beyond the scope of this note, experience shows that such engagement can work well when study team members remain active members of the operational or reform teams. Integrating PE recommendations into operations or reforms can be done through informing the components, indicators, and identifying risks and risk mitigation measures.

3. Three Case Studies

3.1 Introduction

This section presents synopses of the case studies, and information on how and why they were conducted. Each study helped inform different aspects of policy reform – why current policies were not being implemented (WBG water), why reforms were pushed through and the consequences (Chittagong port), why reform efforts had failed (Dhaka bus sector).[13]

3.2 The case studies

BANGLADESH: CHITTAGONG PORT Improving Trade and Transport Efficiency	
Broader objective/ link	To reduce inefficiencies and corruption at the port and eliminate a key bottleneck in the trade and transport sector.
Study objective	The inefficiency of Chittagong Port has turned Bangladesh into an almost landlocked country, as the port handles about 90% of foreign trade. A 2005 study sought to assess the non-technical constraints of the Chittagong Port that reduced its efficiency – hampering growth of trade and the private sector development – and inform dialogue between the Bank and Government on improving reform design. A 2009 follow-up study assessed why some elements of the 2005 study were implemented and others not, and the results of these actions. It further outlines strategies to move reform ahead.
Process	The 2005 study was requested by the Bangladesh Country Management Unit and the Transport team, to help understand informal constraints at the port. It was initially drafted as an internal report. Both the studies were launched formally with the Ministry of Shipping and Chittagong Port Authority and reports were shared. Neither the original nor follow-up study was undertaken as part of Bank operations, although the Bank had operations promoting related reforms in the Customs and Transport sectors. The preparation followed a participatory process, and FGDs and in-depth interviews were organized with all major stakeholder groups.
Tools	Anthropological approach in three steps: 1) stakeholder mapping, 2) participant observation, and 3) qualitative research methods (FGDs; in-depth interviews).
Timing / Sequencing	Two phases: i) original study to inform policy dialogue between government and donors; and ii) follow-up study to assess the impact of the original study's recommendations and sustain reform despite a changing environment.
Key findings	The 2005 study focused on everyday working practices and institutionalized relationships that slow down the throughput of freight, hampering trade. The slow turnaround times at Chittagong Port have enormous impact on the economy, including on the competitiveness of Bangladesh's main export, garments. The study therefore complements the majority of trade and transport studies that focus mainly on technical constraints. It argues that

[13] Authors' summaries of these cases are drawn from: World Bank (2005a), World Bank. (2009b), World Bank (2009c), and World Bank (forthcoming-a).

without an understanding of working practices and relationships – i.e. what is really going on in the port – transport and technological investments are unlikely to realize their full potential in terms of efficiency increases and, consequently, the economic growth and poverty reduction impacts that more trade will bring. Previous reform proposals were perceived to reduce monetary benefits for at least one stakeholder group and were resisted by them.

At an institutional level, the Chittagong Port Authority (CPA) lacked the legal authority to co-ordinate and steer through radical reforms. Meanwhile, speed payments proliferate in the bureaucracy and institutionalize resistance to change; port services are not provided on a competitive basis; and there is no system of performance based pay. Finally, reforms perceived as externally imposed are likely to be resisted.

The report recommended that government establish a core group of facilitators – comprising high-level, experienced negotiators and a few well respected national figures, ideally people from Chittagong, to lead the dialogue for achieving consensus on the reform design and process in a participatory manner, possibly over a period of 6 to 18 months. This core group would work with a multi-stakeholder team from within and outside the port, and engage the members of Port User Forum, local leaders, and especially the Mayor in this process, to form "a coalition of change" supporting the reform process. It was further recommended that the World Bank and donors should not link the reform process with any investments, rather support government and the 'core team' behind the scene with technical assistance.

During the two-year (2007-2008) Care-taker Government (CTG), a joint taskforce, consisting of army and government officials, was established and a number of radical measures were taken to accelerate container handling, improve efficiency and reduce cost. Many constraints identified in the earlier study were addressed: the number of trade unions was reduced, and the workforce was downsized – by retiring 5,000 elderly with pensions and other benefits, and by limiting "temporary/proxy" workers. It introduced private sector involvement in the Berth Operating System, and rent seeking opportunities were reduced by eliminating some steps, such as number of signatures needed for cargo clearance. Many temporary workers did not have legal papers and thus did not receive any form of severance pay.

Outcomes

As a result of these actions, port efficiency improved and vessel turn-around time fell from over nine days to less than one day between 2006 and 2008. However, the CTG did not implement the study's main recommendation, i.e. to form a 'core group' and organize large scale consultations with stakeholders to build consensus on reforms and discuss mitigation measures. Reforms were imposed from the top down. Weak communication between stakeholders resulted in limited access to information; weak technological learning; inadequate integration of political concerns into port planning and development; and low priority given to worker efficiency. Thus the reforms led to new social problems as many temporary workers, the weakest stakeholders, lost jobs without being compensated. This illustrates the downside of informal employment practices and how lack of consultations (no doubt reflecting the lack of political influence among low-paid workers) can hurt certain stakeholders when reforms take place. Following 2009 elections, there has been continuous agitation by trade unions and retired and temporary workers, supported by vested interests unhappy with the reforms. There were several strikes in the port in recent years and government sent in the army several times in order to keep the port open and functioning. Many of the reforms have been overturned and the situation is returning to the status quo ante.

Staff / team	Multi-disciplinary team of international and local experts: a political scientist, a sociologist and an anthropologist, supported by a social development specialist, two transport specialists, and guided by the Country Director.
Budget	US$ 75,000 PSIA Trust Fund (initial study) + US$ 10,000 follow up study + Bank Staff time (approximately 10 staff weeks).

BANGLADESH: DHAKA **Bus Sector**	
Broader objective / link	Improving mobility in the Dhaka metropolitan area along pilot bus corridors (as measured by reduction in average travel time, increase in average travel speed, etc.) as a component of a Specific Investment Loan for "Clean Air & Sustainable Environment (CASE) Project" (SASSD-Env).
Study objective	In the 1990s, the World Bank financed the Dhaka Urban Transport project. However, many reform measures for reducing street congestion were not undertaken due to resistance from vested interest groups. So it was proposed that a small component will be included within CASE to study the bus network, and implement a pilot Bus Rapid Transit Route (BRTR) to learn lessons, for designing better traffic management investments. This study was undertaken to better understand the political economy of Dhaka bus system, why distortions of this sector have persisted over time; and what the institutional and regulatory bottlenecks are.
Process	The study was undertaken by the World Bank, as an input for the preparation of the CASE project. The TORs were drafted by the World Bank team and shared with government. It was financed out of the CASE preparation budget. The preparation used a participatory approach, and focus group discussions and in-depth interviews were organized with all major stakeholder groups. Several meetings were organized with government stakeholders for discussing the preliminary findings and recommendations, and incorporating them into the design of the project.
Tools	Qualitative research methods (FGDs; in-depth interviews; etc.); stakeholder mapping (perception, interests, expectations, and potential reactions to reform); force-field analysis.
Timing / Sequencing	Undertaken during the preparation of the CASE project (2007-08) and incorporating the findings and recommendation in the design of reform e.g. piloting a Bus Rapid Transport Route (BRTR) in Dhaka city within CASE.
Key findings	The Dhaka bus sector study describes how patronage structures and processes determine de facto governance of service institutions as well the allocation of route permits and issuance of vehicle licenses. Instead of coordination among sector institutions, the linkages between different interest groups and political parties determine the number of permits, routes, pricing, etc., creating a culture of rent-seeking and corruption. It represents a major source of (informal) income and political influence in the capital and its capture enables party leaders to exert patronage and engage in clientilism.

Meanwhile, institutions of accountability are systematically undermined to establish patronage networks. Past efforts to regulate and reform bus operations had been thwarted by vested interests, such as business syndicates, politicians, police, and trade unions. These groups prevent the agencies responsible for allocation of routes and regulation of bus operations from carrying out their proper work, resulting in more and more buses operating on roads already choked with traffic. The perverse equilibrium arising out of this situation has serious negative implications in terms of incentives for reform among the political actors, even in a competitive political setting.

Problems in the bus sector were found to persist for two main reasons related to formal governance processes and institutional deficiencies, specifically: i) a lack of coordination among relevant agencies; and ii) institutional problems in terms of organizational capacity, competence of personnel and lack of human resources. Governance of the bus sector is captured by the main political parties. To a large extent bus sector governance, like other sector governance in Bangladesh, mimics the rules of the game of the so-called *partyarchal* governance at the national level. *Partyarchy* denotes a democratic political system in which political parties monopolize the formal political process and politicize society along party lines. It determines the incentives and behavior of the actors involved in the bus sector associations as well as in the relevant representative institutions

An elaborate patronage structure and process tends to determine the de facto governance of the service institutions as well the allocation of route permits and how vehicle licenses are issued. The regulatory institutions are the main focal point for patronage distribution through route allocations where association leaders are strategically located and work as conduits. To sustain this highly lucrative patronage structure, the integrity and autonomy of regulatory institutions are heavily compromised. Pervasive and systemic rent-seeking in the bus sector generates incentives among the market actors (bus owners, drivers, staff) to engage in pro-active corrupt practices.

Commuters, the users of the transport system, have virtually no voice. For example, the police use harassment tactics in the name of checking documents (license, fitness etc.), and may requisition vehicles for police duty, yet another instrument of harassment and bribe collection. The Regulatory and Accountability Institutions are likewise captured by powerful interest groups. They use various tactics for rent-seeking, including dilatory tactics, resisting introduction of transparency-enhancing technology, and participating in the market for public office where fixed amounts of money must be collected by BRTA officials (through bribes) for political and transportation sector leaders.

Outcomes	The PE study revealed that power of the most influential anti-reform stakeholders (politicians, leaders of the bus association, elected officials of DCC) is essentially derived from the broader nature of the political governance structure of the country. The stakes in preserving the status quo are very high for them and any reform initiative without proper assessments of how to handle such incentives would increase the risks of stalling reforms or it being abandoned altogether. Therefore, the CASE was scaled down and the design included only analytical and stakeholder engagement work, not piloting of BRTA. The analytical activities included a study on Dhaka Bus Network and Regulatory Reform Design, BRT and Corridor Restructuring Implementation Study, Social Improvement Plan, and Branding, Marketing and Public Consultation.

Staff / team	Three local senior consultants: a political scientist, a journalist and an anthropologist; supported by an environment specialist, and guided by a governance advisor, and the Country Director.
Budget	US$ 25,000 + Bank staff time (approximately 6 staff weeks).

WEST BANK AND GAZA **Water Sector Development**	
Broader objective / link	To illustrate how Israeli-imposed Movement and Access (M&A) Restrictions impede WBG's water sector development and Palestinian economy at large; and engage stakeholders in a policy dialogue on mitigating negative effects.
Study objective	Economic and Sector Work (ESW) to identify, analyze and create awareness of the factors restricting Palestinian water sector development; assess the economic, socio-political, and environmental impacts of M&A restrictions on water sector governance and operations, people's livelihoods, donor activities and capacity weaknesses; and begin a stakeholder dialogue between Palestinian and Israeli authorities and donor community in a conflict and/or peace process context.
Process	Following a Palestinian Authority (PA) request, the Bank tailored the PSIA approach (including PE considerations) to the WBG water sector "conflict" context, using a participatory approach. An 'informal country counterpart team' was created to involve selected government and non-government stakeholders throughout the study's design, data collection, analysis and reporting stages. The purpose was to ground the study in Palestinian and Israeli water sector realities, facilitate the integration of sector knowledge and local expertise into data collection and analysis; help to strengthen the PA's institutional capacity; and contextualize and deepen the quantitative analysis that faced difficulties in reliable data collection in a challenging political environment. In addition, several workshops were conducted with a wider range of sector stakeholders.
Tools	Qualitative methods (key-informant interviews, FGDs, secondary data analysis) for stakeholder and power mapping, institutional analysis via decision mapping, impact analysis and risk analysis; and quantitative methods to assess impacts on GDP, public health, and agriculture.
Timing / Sequencing	On the one hand, to meet a 2008 request of the Ministry of Planning, and the Palestinian Water Authority (PWA) led by a new director; on the other, the task scope and scheduling were adapted to satisfy a Country Management Unit (CMU) request to have validated study findings available for dissemination at the donor's Ad Hoc Liaison Committee meeting and report in Spring 2009.
Key findings	The key factors that hamper Palestine's water sector and overall economic development emerge from asymmetries of power, capacity, information and interests between Israeli and Palestinian water stakeholders. The factors include (i) Israel's security-oriented M&A restrictions on people and goods (via physical and institutional barriers); (ii) the associated water sector governance system in WBG; (iii) the institutional weaknesses of the PA and, specifically, the PWA for planning, implementation and management of water infrastructure; and (iv) the development partnerships (of donors and NGOs) that

move uneasily between the political context and the development challenge. These factors, in addition to water scarcity and run-down infrastructure, have led to very poor services and financial difficulties, e.g. the cost to the Palestinian economy of forgone opportunities in irrigated agriculture is estimated to be as high as 10% of GDP and 110,000 jobs. The extra cost to users of reliance on expensive water from tankers may add up to 1% of GDP, and the cost of the deteriorating water quality and water related illness is estimated at 0.4% of GDP.

Equal in theory but asymmetric in practice, the current governance framework de facto prevents the PWA from administering the sector. The joint Israeli and Palestinian governance system (Joint Water Committee- JWC), established under the 1995 Oslo interim agreement, does not facilitate rational planning and development of Palestinian water resources and infrastructure. Current institutions place significant constraints over Palestinian water project development by giving veto power to the Israeli Civil Administration in over 60% of the West Bank, and by letting the Israeli Water Authority use its role as regulator of the Palestinian water sector to prevent water source development. Furthermore, the water sector governance system was designed as an interim agreement for the period 1995-2000, but is still in place today – an agreement perceived as binding by Israelis, and as outdated by Palestinians. This prevents a constructive sector dialogue from occurring. In the absence of reform, many water investments never materialize, or encounter multiple administrative hurdles for obtaining implementation permits which leads to higher costs (financial, time, and missed opportunities).

When combined with Palestinian governance and capacity weaknesses, these rules, practices and M&A restrictions have resulted in severe systematic constraints on Palestinian development of water resources, water uses, and wastewater management. As a result, small-scale and local emergency projects have become the norm at the expense of strategic development programs. Access to water resources, water infrastructure and institutions remain inadequate, despite sector investments by the PA and donors, e.g. availability of water resources is highly disparate, with fresh water per capita in Israel approximately four times that of WBG, while water-related humanitarian crises are chronic in Gaza and in parts of the West Bank. Increasing supply by the Israeli national carrier alleviates water shortages. However, this enhances dependence of Palestinians and Palestinian water utilities on Israel, making them vulnerable to Israeli decisions and interventions, and may also increase commercial risks and costs. The political situation has often complicated donor positions and NGO work. There is little choice for them except to engage via small-scale, short-term projects in emergency mode, rather than through sector development programs.

Priorities identified by the study are (i) reforming the way in which the JWC and Civil Administration address Palestinian development needs; ii) strategic planning, reformulation and implementation of the investment program, iii) reviving irrigated agriculture as a key sector for the Palestinian economy, and iv) institutional reform to redefine sector architecture and build capacity in sector agencies in light of the reality on ground.

Outcomes	The PE analysis and dialogue informed the Water Sector Capacity Building Project (USD 6 million – IDA share USD3 million and the remainder co-financed by AFD and SIDA) that aims to strengthen the capacity of the PWA to more effectively plan, monitor, and regulate water sector development in the West Bank and Gaza. As a result of several other factors, the approval of Palestinian waste-water treatment plants by Israeli Authorities also increased substantially.

Staff / team	Multi-disciplinary, international and local team: a water supply and sanitation staff, a social development staff, a conflict consultant, three water resource management consultants (including two local academics), guided by the Country Director.
Budget	US$ 120,000, plus staff time (approximately 9 staff weeks and 3 missions).

3.3 Reflections on the diagnostic elements

With respect to analyzing reform context, each study approached the issue in a different manner. None attempted a comprehensive analysis of the constellation of socio-economic, political, cultural and historical factors. Indeed, an in-depth analysis could easily have become time-consuming and resource-intensive. When considering an assessment of the reform context, the question soon arises: Where does one stop? The solution suggested by these studies is to **take a pragmatic approach – address the most relevant contextual area for the sector, and go 'as far as necessary', given the available resources**. Certainly, a deeper understanding of the country and the history of the sector would enrich our understanding, but when time and funding constraints limit the scope of work, the studies show it might be best to capture the most pressing contextual issues affecting the sector.

In terms of the reform arena, the studies revealed that a root cause of many problems is the attitude among stakeholders (and not just the most powerful) that their sector is a resource to be exploited (whether it is water, rents from port, or rents from bus operations). In addition, institutions which might impose some sort of social equity are overcome by the stronger stakeholders who are able to harvest a disproportionate share of the benefits. Technical solutions may exist, but stakeholder linkages and incentives work against their implementation. **Clearly, understanding and addressing those relations and incentives is as important as technical recommendations**.

Analysis of the reform process showed that in each of the cases, **political will by the most powerful stakeholders emerges as a key determinant of whether or not reform dialogue leading to implementation is possible**. In WBG Water, it is the ability of Israeli authorities to control Palestinian water governance, thus preventing investments in needed water infrastructure, delaying sector reform, and hampering overall Palestinian economic development. By contrast, in the Chittagong Port case, it was thanks to the determination of the two-year caretaker government that reforms were pushed through (only to be reversed once the CTG stepped down). In the Dhaka bus sector, it is the combined efforts of political and vested interests, and the *absence* of a stakeholder powerful enough to push through its will, that reform has not occurred, ensuring that congestion continues to worsen.

4. Action Framework in Practice: Lessons Learned

This final section outlines some lessons from the case studies for operational teams and development practitioners on what occurs alongside the actual data collection and analytical process, issues rarely covered in published reports.

In light of the potential conflicts posed by the trilemma – making recommendations that are technically and politically feasible while simultaneously promoting welfare – study commissioners and practitioners will recognize that good analysis and reporting is not enough. Taking the next step, of ensuring that analysis and recommendations are accepted, is far from easy, and generally requires the deployment of a range of strategies and resources. In getting traction for practical PE recommendations, certain obstacles can be expected, and the case studies illustrate how they arise and can (sometimes) be addressed.

4.1 Timing Tailoring and Sequencing of Reforms

Align the study with the reform cycle and with operations supported by the Bank.

The timing of a PE study should be considered carefully in terms of aligning it with the timing, tailoring and sequencing of the reforms it is intended to inform. Discussions of preliminary findings before the study is complete can be valuable by establishing a communication channel and signaling expected results. For example, the WBG water study consciously supported policy dialogue on change and was a precursor to a Bank-supported capacity building project for the PWA. If the PE research takes place after the reform window has closed, it may not be useful (or forgotten by the time the window opens again). The Dhaka Bus Sector study revealed that much more groundwork needed to be done before reform could move forward. Likewise, when PE work is conducted as part of the preparation of a CAS or PSIA, or in tandem with operations, it can provide useful insights into the political dynamics, and feed directly into the operational design.

Take into account political events and developments.

Studies do not take place in a vacuum. Political events and developments may intrude. In some cases, PE studies have even been repressed or their scope was reduced because of concerns about their political impact, especially before elections.[14] The recommendations from the Dhaka PE study informed the possibility of reform proposals, e.g. piloting a Bus Rapid Transport Route (BRTR) in Dhaka city within the CASE Project. As the study identified major bottlenecks, the project was scaled down for more preparatory work. As noted above, in the case of the Chittagong port, after the CTG stepped down the situation gradually returned to what it was before.

[14] This is what occurred with the study on waste management in Andhra Pradesh, which was another case study, but could not be included in this report. The government requested that the researchers not look at political economy issues in urban environments (the only environments where they truly mattered), out of concern for the effect on upcoming elections. Hence, the study's scope was limited to rural areas, and its focus became social and technical issues, rather than political economy issues.

4.2 Strategic use of findings and analysis

Consider the political economy of political economy work.

There are always PE risks to conducting PE studies. Hard truths are hard to listen to. The research, let alone the findings, may not be welcomed by those vested in the status quo. Depending on the sensitivity of the topic, there are risks of alienating anti-reform forces within the government, straining relationships, reduction in Bank lending, etc. Often, the most powerful stakeholders in the country benefit significantly from the way the game is played, and will try to block the study or reduce its scope. This can happen at the outset, or only after they realize the implications of the study. The Dhaka Bus sector study, for example, revealed that it is the regulators who are benefitting from the system, and they would not support any reforms that would reduce their benefits. In the WBG case, Israeli stakeholders questioned the reliability of the qualitative findings (based on key informant interviews and FGs) since the findings were critical of their position.

Choose the appropriate dissemination level.

One way of addressing the issue of whom to share findings with, without compromising the quality and integrity of the work, is to produce material for different levels of dissemination: i) opening up public policy dialogue; ii) confidential discussion with the Government; and iii) internal 'deep knowledge' for the Bank to inform its own decisions on operations.[15] The findings of the Chittagong Port and Dhaka Bus sector studies were used for confidential discussion with the Government; and for internal 'deep knowledge' for the Bank to inform its own decisions on operations. In contrast, the WBG study was published and disseminated in Israel, WBG and internationally. The noteworthy difference is that the WBG study was requested by the PA and PWA, which could only expect to benefit from any policy changes.

Build internal support for PE work and reforms.

World Bank management and sector task teams may choose to use caution with PE findings and conclusions to avoid antagonizing the government and jeopardizing the client relationship. Although the World Bank may like to see itself as an honest broker standing outside the reform process, this is not always the case and more often than not, the Bank should be considered one of the stakeholders. For example, the Bank may be disinclined to embrace PE work if it feels its position toward the sector in question is compromised. In addition, the study team, sector colleagues and management may not see eye to eye on the use of the study. These dynamics often emerge during study implementation and cannot be foreseen, but PE practitioners should be aware of the possibility.

[15] Thanks to Charles Undeland for the concise formulation of the three levels.

Use Political Economy work as internal 'deep background' information.

What if the PE study is held back, either by the government or the Bank? As noted above, PE studies have potential value not only as direct inputs into policy reform design, but also as background research that can help the World Bank or governments decide on a position.[16] A study can be useful even when conducted in a low-key manner without publicity. Sometimes, as in the WBG case, findings are published. In other cases, findings considered unacceptable by one or the other powerful stakeholders, are removed from the final report, but only after they have a chance to see it and the message (hopefully) has gotten through. The Chittagong Port or the Dhaka Bus sector studies were discussed with government but not published, as policymakers felt the findings were too sensitive and, perhaps, officials did not want to get into trouble with powerful stakeholders.

4.3 Focus on Accountability Issues

Combine top down and bottom-up accountability

Although difficult to push through since it implies loss of influence for at least one party, accountability often needs to be realigned. In WBG, the study recommended enhancing accountability of the PA and PWA to its constituents, given that the PWA currently operates as both regulator and implementer of the water sector. The study suggested capacity building of sector agencies – from the top down and the bottom up, and reformulation of the investment program through a participatory planning process involving all stakeholders, including decentralized actors, donors and NGOs.

In Bangladesh, the formal institutions that should be providing checks and balances lack autonomy from the executive and are therefore unable to fulfill their function. For example, the Chittagong Port Authority was established as an autonomous agency, but is still under the Ministry of Shipping and lacks independence. The port users' forum and even the Business Chambers for whom an efficient transport and port sectors are essential have very limited influence. In fact, there is very little accountability in either direction.

4.4 Partnership Strategies

Create study ownership via stakeholder participation during study implementation, to help translate findings into action.

Ownership of study findings can be built through the process of conducting a PE study. Generally speaking, studies conducted in a participatory manner with in-country stakeholders offer at least four benefits: i) findings can draw on more information sources; ii) findings receive greater validation; iii) recommendations are more likely to be technically feasible and politically acceptable; and iv) having invested in the study, stakeholders may be more inclined to turn the recommendations into actions. This occurred with the WBG water study, which formed an informal country counterpart team that comprised representatives of the PWA, Ministry of Planning, Ministry of Agriculture, National Support Unit, NGOs, donors, and local researchers.

[16] Which governments often refer to as 'intelligence.'

This team was engaged throughout the study's design, data collection, analysis, and reporting stages and promoted the implementation of study recommendations. Subsequently, study recommendations have been used by the different stakeholders for their own work. In contrast, the two Bangladesh studies were not able to build country ownership.

Anticipate government resistance.

It may, however, often be difficult to obtain buy-in from local stakeholders without a two-way dialogue informed by research findings. While the Chittagong Port and Dhaka Bus sector studies used participatory approaches during the analysis, the opportunity to win over allies by discussing the findings in public was missed. It would have been useful to form partnerships with civil society organizations in the beginning of both studies, such as with the Port Users Forum and the Dhaka Commuters Network, respectively, but as both the studies were initiated as internal documents, the opportunity was lost. Because no coalition for change was built leading up to the reforms, they were only partially implemented and did not receive the desired widespread support. Port users and bus commuters were the biggest losers. The Government may have wanted to keep the findings internal and use them to develop the reform process outside the public eye, but perhaps for this very reason reforms did not go forward as designed.

Facilitate stakeholder interactions for win-win solutions.

During any PE work, it is useful to facilitate stakeholder interaction to help push for reforms. Development practitioners can facilitate this by focusing on ways in which the most powerful stakeholder groups, who may well be resistant or apathetic toward reform, can benefit in some way, either politically or economically, without undermining the reform goals. Politicians can then highlight specific reform benefits and build up political capital. If powerful interests can see reform as a 'win-win situation' – with benefits accruing both to themselves and other (weaker) stakeholders, such as the poor and vulnerable – in theory they will be more likely to accept it. For instance in WBG, Israeli stakeholders agreed to collaborate with their Palestinian counterparts for improved wastewater treatment based on the ensuing environmental and health benefits for both sides. They were able to accept that by cooperating, each side could win more.

4.5 Public Debate & Communication Strategy

Decide on an appropriate level of dialogue.

PE work can sometimes quite effectively support the policy dialogue which contributes to change if the debate is conducted in an open format. On the other hand, studies can and have been done discreetly, with low levels of public awareness. While their impact is at risk of being lower, such studies, if shared with a small group of policy makers, or even just the World Bank, can still inform decisions. Study commissioners or implementers may sometimes need to weigh the urgency of the study (how important is it to feed into policy proposals or design, or Bank project preparation?) and acceptability. Publishing more than one version of the report should be considered, one for wider publication, and another for internal use, where sensitive findings are outlined. However, the possibility of leakage must also be taken into account. In WBG, the study was conducted in an open manner with incremental consultation through bilateral meetings, FGs and workshops with Palestinian sector stakeholders, including the country counterpart team, as well as with Israeli stakeholders. This helped to ground the study in sector realities, facilitate the

integration of local knowledge into data collection and analysis, including contextualizing and deepening the quantitative analysis; strengthen the PA's institutional capacity; and promote a sector dialogue between Palestinian and Israeli counterparts.

Prepare a strategy for engaging with government and other stakeholders.

It is best when the government, and other stakeholders are engaged in the study from the outset. There are various approaches, involving participation throughout the design, consultation, and finalization phases. As noted in the introduction, without government buy-in (political acceptability), no matter how technically feasible the recommendations are, translating analysis into action will be an uphill battle. A government that is concerned about the impact of the study may not welcome findings, or be reluctant to engage in stakeholder consultations. This is a real concern, since most PE studies are commissioned precisely to address the anti-reform stance of powerful interests (who are invariably connected to parties or politicians).

In the case of Chittagong Port, the study timing was good, but its influence turned out to be less than desired, perhaps because there was no follow up dialogues after the study and findings were not disseminated. This was clearly visible in the Dhaka bus sector study as well, where findings were not disseminated. The bureaucrats responsible for the reforms were anxious not to antagonize the politicians, who were directly benefiting from the status quo. In Bangladesh, effective and strong civil society organizations could have facilitated debates over the efficiency of the port and bus sector and taken the reform agenda forward. However, they were not brought into the debate because the study findings were not disseminated publicly. The official counterpart was the Government, comprised of the most powerful stakeholders benefiting from the status quo, and perhaps they stood to lose from policy changes. In contrast, in WBG, five roundtables and workshops were conducted with Palestinian sector stakeholders in addition to the informal country counterpart team. Israeli stakeholders were consulted through individual meetings. The World Bank was thus able to facilitate reform dialogue within and between both groups, Palestinians and Israelis, by focusing on shared interests and 'win-win options' in the water sector. The key counterpart, the PWA, held a weak position and was aware that the PE study would help strengthen it.

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Social Development Department
The World Bank
1818 H Street, NW
Washington DC 20433
socialdevelopment@worldbank.org