

Stefan Hochhuth - Mind the Political Economy

## PRESENTATION

# THE VALUE ADDED OF POLITICAL ECONOMY!

ASWAN, MAY 2013

SDC F2F DLGN-NETWORK

STEFAN HOCHHUTH

# • THE POLITICAL ECONOMY OF REFORM

- INTRODUCTION OF CONCEPT

- KEY MESSAGE:

- KEEP THE POLITICAL ECONOMY IN MIND!

- APPROACH:

- HOW TO MAKE REFORMS HAPPEN!

# BACKGROUND

## **PROBLEM:**

- PERFECT PROJECT/ REFORM (1ST BEST SOLUTION)

## **BUT IMPLEMENTATION IS ...**

- ...DIFFICULT
- ...FAILS
- ...GETS POSTPONED
- ETC.

## **WHY?**

- DIFFICULT ENVIRONMENT
- RESISTANCE
- PROBLEMS

# WHAT IS POLITICAL ECONOMY?

## **SOMETHING FAMILIAR:**

- ABOUT DAILY LIFE DECISIONS
  - WHY DO PEOPLE DECIDE IN A SPECIFIC WAY?

## **LITTLE THAT IS NEW:**

- A SYSTEMATIC APPROACH
  - PEOPLE FOLLOW SPECIFIC INCENTIVES

**POLITICAL ECONOMY OFFERS TOOLS TO ANALYZE THE ENVIRONMENT AND MOTIVATIONS OF KEY ACTORS.**

# WHAT IS “ECONOMIC” IN POLITICAL ECONOMY?

ECONOMIC PRINCIPAL OF  
RATIONAL BEHAVIOR:

**PEOPLE WANT TO MAXIMIZE THEIR UTILITY**

...BUT HAVE DIFFERENT INCENTIVES

# WHAT IS “POLITICAL” IN POLITICAL ECONOMY?

PEOPLE ACT FOR VARIOUS REASONS:

- MORAL CONSTRAINTS (RULES, NORMS, TRADITIONS)
- STRUCTURAL CONSTRAINTS (VETO PLAYER)
- HIERARCHY CONSTRAINTS (BOSS, DEPENDENCIES)
- PERSONAL CONSTRAINTS (RE-ELECTION, SERVING INTERESTS OF FRIENDS)
- MATERIAL CONSTRAINTS (CAPACITY, TIME)

# WHY IS IT IMPORTANT?

MIND THE POLITICAL ECONOMY!

EVEN BEST IDEAS CAN FAIL IF INCENTIVES ARE WRONG!

PROBLEM TO SOLVE:

**BUDGET** (MONEY, SKILLS, PROPONENTS, TIME) >

**COSTS** (CONVINCING OPPONENTS, TIME CONSTRAINTS, INCENTIVE CONSTRAINTS, ETC.)

MAX: SUPPORT

MINIMIZE: OPPOSITION

# WHAT IS POLITICAL ECONOMY II?

POLITICAL ECONOMY IS...

- ... THE UNDERSTANDING OF INSTITUTIONAL STRUCTURES
- ... THE UNDERSTANDING OF DECISION MAKING PROCESS
- ... THE UNDERSTANDING OF KEY PLAYERS THAT COULD PUSH OR BLOCK A REFORM
- ... THE UNDERSTANDING OF INCENTIVE CONSTRAINTS AND OBSTACLES TO REFORM



# MAIN QUESTIONS

- ARE YOU SURE THAT YOU FOLLOW THE RIGHT REFORM OBJECTIVE?
- DO YOU KNOW WHO WILL MAKE THE FINAL DECISION?
- DO YOU KNOW WHO THE KEY DECISION MAKERS ARE?
- DO YOU KNOW WHO DEPENDS/ RELIES ON WHO?
- DO YOU KNOW WHAT THE REAL AGENDA OF KEY PLAYERS IS?
- DO YOU KNOW HOW TO MOVE PLAYERS TOWARDS REFORMS?

# ADVANTAGES

- PROVIDE A SYSTEMATIC APPROACH ON SOLVING IMPLEMENTATION PROBLEMS
- IDENTIFY PROBLEMS EARLY (POLITICAL RISK MANAGEMENT)
- RETHINK TRADITIONAL APPROACHES
- OPTIMIZE THE USE OF LIMITED RESOURCES
- AVOID MISSIONS IMPOSSIBLE

# POLITICAL ECONOMY ASSESSMENTS

## 1. Reform Analysis

- **What is the objective?**

## 2. Institutional Analysis

- **What is the institutional setting?**

## 3. Political Risk Analysis

- **Who are the key actors?**

## 4. Feasibility Analysis

- **Is it feasible?**

## 5. Implementation

- **How can it be implemented**

# POLITICAL ECONOMY ASSESSMENTS

1. Reform Analysis

2. Institutional Analysis

3. Political Risk Analysis

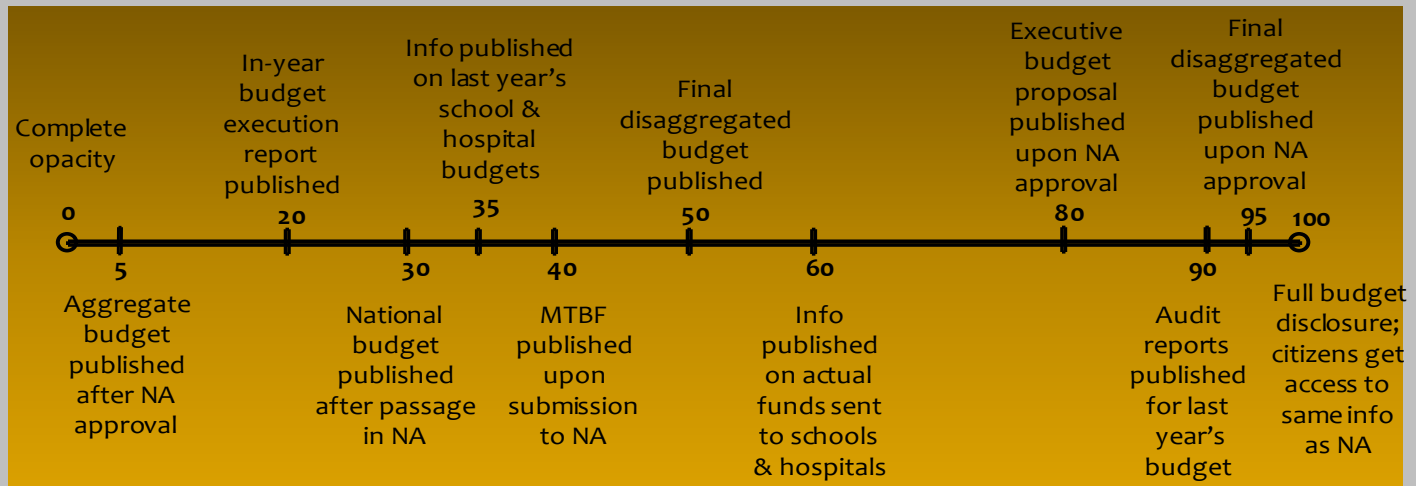
4. Feasibility Analysis

5. Implementation

## REFORM ANALYSIS

- WHAT DO YOU WANT TO ACHIEVE?
- WHAT ARE THE DIFFERENT ACHIEVEMENT OPTIONS (LINEAR CONTINUUM)?

### Budget Transparency in Mongolia



12

Source: The World Bank

1. Reform  
Analysis

2. Institutional  
Analysis

3. Political Risk  
Analysis

4. Feasibility  
Analysis

5.  
Implementation

## INSTITUTIONAL ANALYSIS

- WHICH INSTITUTIONS ARE RESPONSIBLE FOR POSSIBLE CHANGE?
- WHICH INSTITUTIONS FINALLY DECIDE OR COULD PROMOTE THE CHANGE?
- WHAT ARE THE DECISION MAKING PROCESSES?

### TOOLS:

- WORLD BANK INSTITUTIONAL ASSESSMENT TOOLS
- DFID - [DRIVERS OF CHANGE \(DOC\)](#)

# POLITICAL ECONOMY ASSESSMENTS

1. Reform  
Analysis

2. Institutional  
Analysis

3. Political Risk  
Analysis

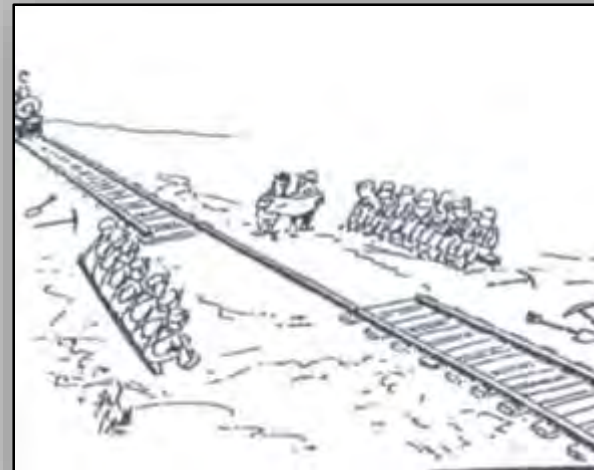
4. Feasibility  
Analysis

5.  
Implementation

## POLITICAL RISK ANALYSIS

THE POLITICAL RISK ANALYSIS ASSESSES POLITICAL MARKET IMPERFECTIONS.

- IDENTIFY ALL POLITICAL RISKS



SOURCE: PEMU (SDC)

- EXAMINE THE KEY PLAYERS INCENTIVE STRUCTURE AND PERCEPTIONS

# POLITICAL ECONOMY ASSESSMENTS

1. Reform  
Analysis

2. Institutional  
Analysis

3. Political Risk  
Analysis

4. Feasibility  
Analysis

5.  
Implementation

## POLITICAL RISK ANALYSIS

- **KEY PLAYER ANALYSIS**

WHO ARE THE PLAYERS?

- **STAKEHOLDER ANALYSIS**

WHAT ARE THEIR CHARACTERISTICS, INTERESTS,  
RELATIONS, SALIENCE?

- **POWER ANALYSIS**

WHAT IS THEIR DEGREE OF THEIR INFLUENCE?

# POLITICAL ECONOMY ASSESSMENTS

1. Reform Analysis

2. Institutional Analysis

3. Political Risk Analysis

4. Feasibility Analysis

5. Implementation

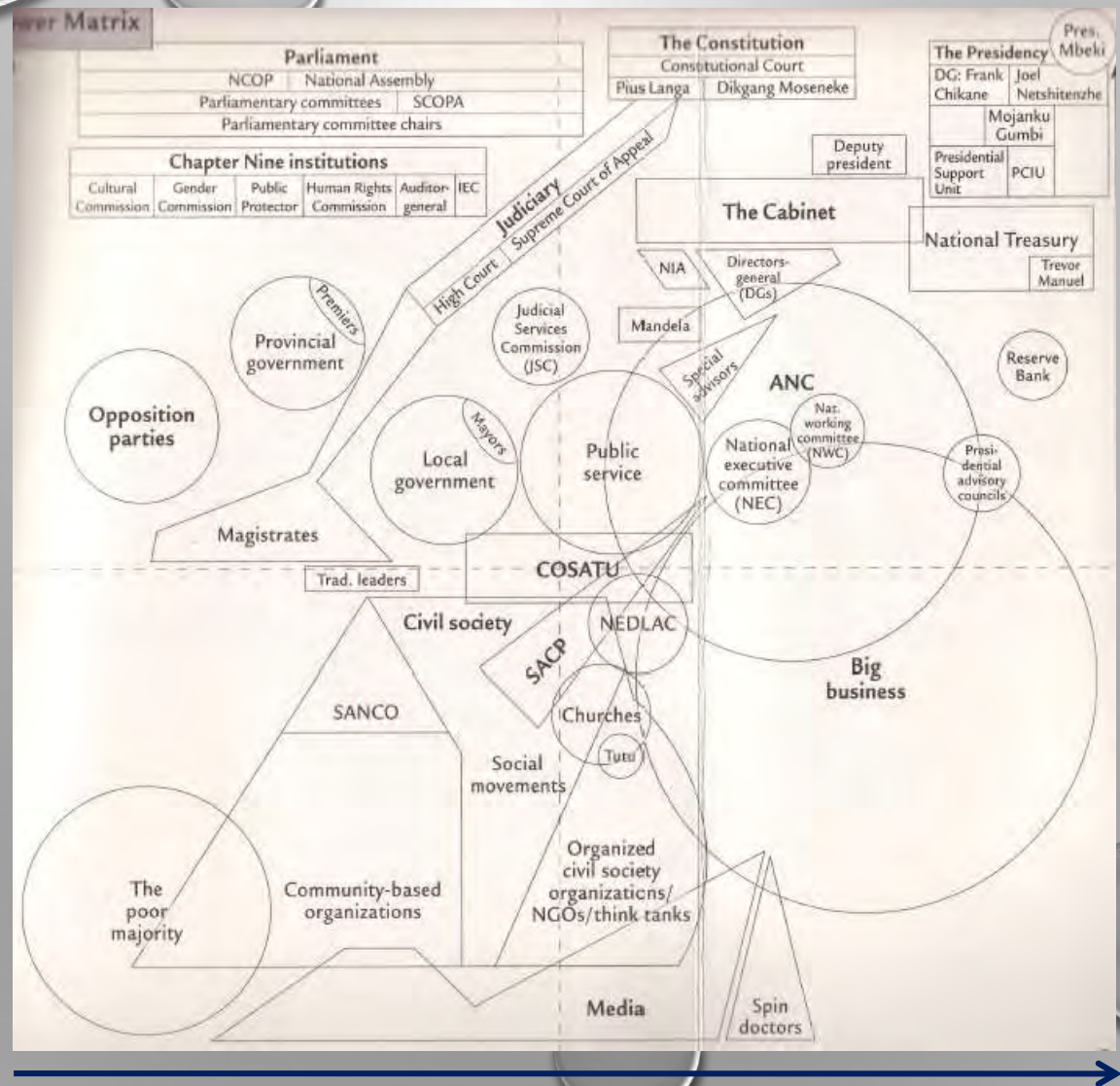
## KEY PLAYER ANALYSIS

- WHO ARE THE **KEY PLAYERS** IN YOUR REFORM CONTEXT?

<p><b>Political System</b></p> <ul style="list-style-type: none"> <li>▪ Policy elites</li> <li>▪ National government/ Cabinet Members</li> <li>▪ Politicians/ Parliamentarians</li> <li>▪ Bureaucrats/ civil servants</li> <li>▪ Regulators</li> <li>▪ The President/ Head of State</li> <li>▪ Community leaders</li> <li>▪ Legislators</li> <li>▪ Political Parties/ Regional and local Government</li> </ul>	<p><b>Interest Groups</b></p> <ul style="list-style-type: none"> <li>▪ Farmers</li> <li>▪ Industrialists</li> <li>▪ Consumers, etc.</li> <li>▪ Local private sector</li> <li>▪ Representatives of target or affected groups (Lobbyists)</li> <li>▪ Trade Unions</li> <li>▪ Local community groups/ Community based organizations</li> <li>▪ General public (workers, farmers)</li> <li>▪ Churches</li> <li>▪ Minority groups</li> </ul>
<p><b>Opinion makers</b></p> <ul style="list-style-type: none"> <li>▪ Local media</li> <li>▪ Religious leaders</li> <li>▪ Local NGO</li> <li>▪ Celebrities</li> <li>▪ Journalists</li> </ul>	<p><b>Externals</b></p> <ul style="list-style-type: none"> <li>▪ International Media</li> <li>▪ International NGO</li> <li>▪ International Donors</li> <li>▪ International Private Sector</li> <li>▪ International Organizations</li> <li>▪ (Neighbor) States</li> </ul>
<p><b>Others</b></p> <ul style="list-style-type: none"> <li>▪ Military / Secret Services</li> <li>▪ Business leaders</li> <li>▪ Organized Crime</li> <li>▪ Aristocrats</li> <li>▪ Middle Class</li> </ul>	

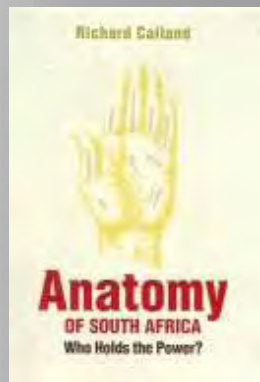


# Power Matrix – R. Calland (2006) Anatomy of South Africa: Who Holds the Power?



Importance

Influence



## Stakeholder Analysis

1. Who are the **stakeholders** relevant to the issue?
2. What **positions** do they adopt?

NO REFORM

SOME REFORM

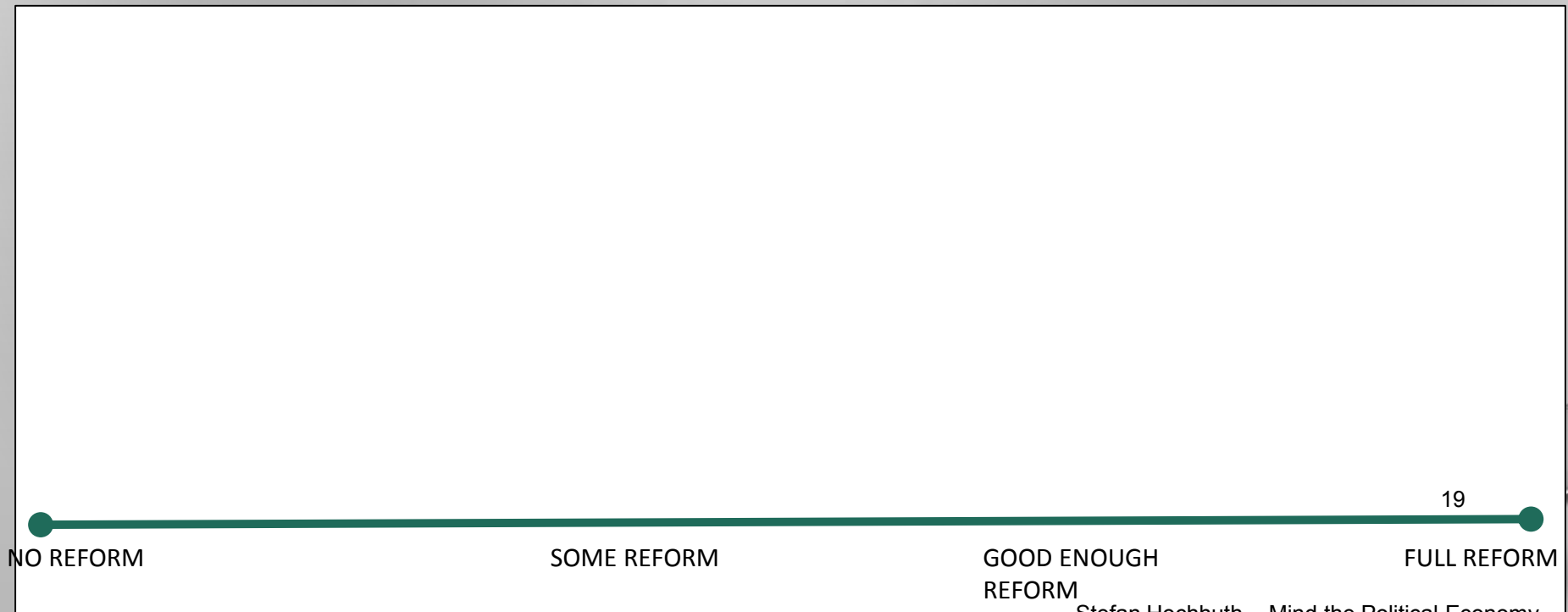
GOOD ENOUGH  
REFORM

FULL REFORM

18

## Power Analysis

3. What is their potential to **influence** the outcome?
4. How **relevant** is the issue to them?



# POLITICAL ECONOMY ASSESSMENTS

1. Reform  
Analysis

2. Institutional  
Analysis

3. Political Risk  
Analysis

4. Feasibility  
Analysis

5. Implemen-  
tation

## UNDERSTANDING OF INCENTIVE STRUCTURE OF THE KEY DECISION MAKERS

- IDENTIFICATION OF THE BIGGEST OBSTACLES TO REFORMS
- CALCULATION OF THE TOTAL COSTS OF REFORMS.
- REFORM/ PROJECT IS FEASIBLE IF

**BUDGET** (MONEY, SKILLS, PROPONENTS, TIME) >

**COSTS** (CONVINCING OPPONENTS, TIME CONSTRAINTS, INCENTIVE  
CONSTRAINTS, ETC.)

# POLITICAL ECONOMY ASSESSMENTS

1. Reform Analysis

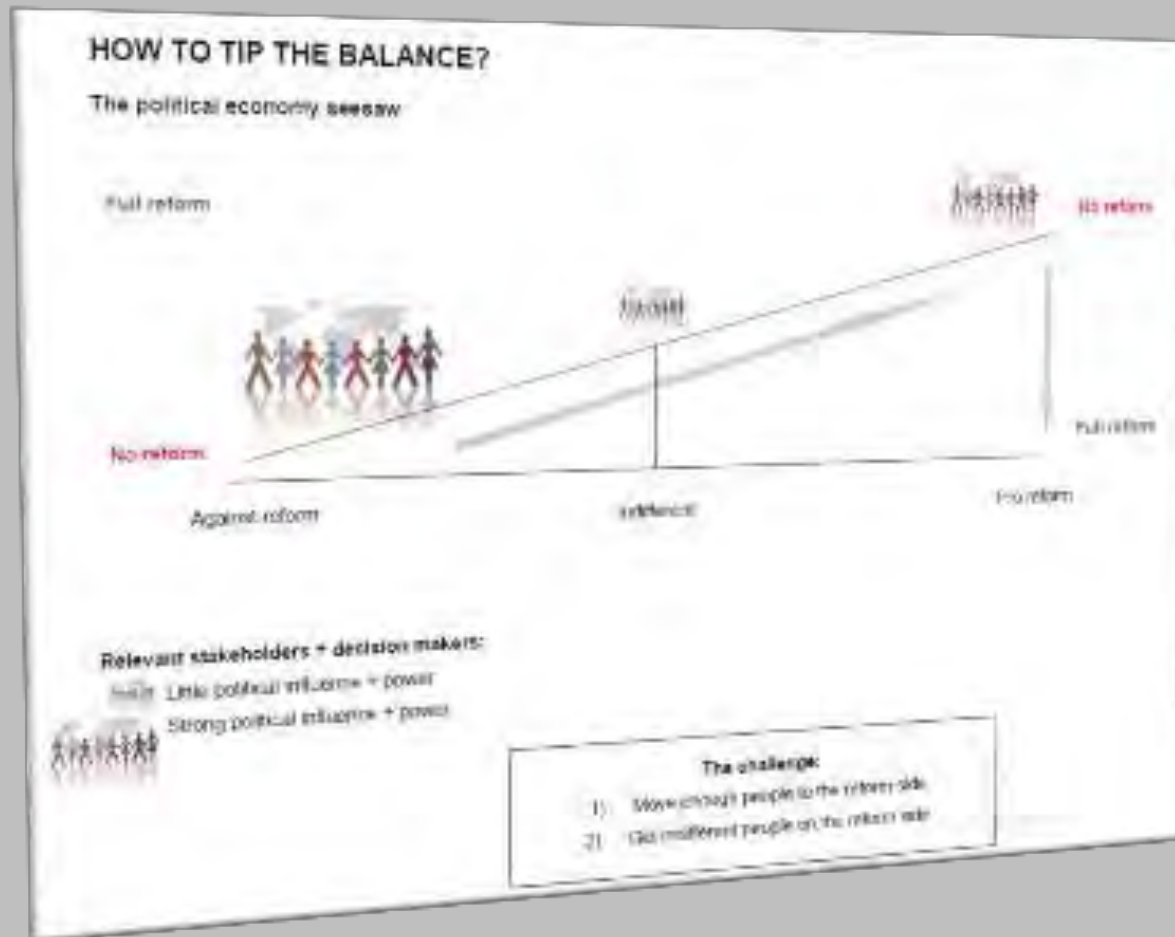
2. Institutional Analysis

3. Political Risk Analysis

4. Feasibility Analysis

5. Implementation

## HOW TO FLIP THE SEESAW?



# Stakeholder Dynamics

- ❖ *Who is expected to change position?*
- ❖ *In response to whom?*
- ❖ *What is the predicted outcome and degree of consensus?*
- ❖ *What are the potential obstacles to achieving the desired level of reform?*

# POLITICAL ECONOMY ASSESSMENTS

1. Reform  
Analysis

2. Institutional  
Analysis

3. Political Risk  
Analysis

4. Feasibility  
Analysis

5. Implemen-  
tation

## IMPLEMENTATION

- CHANGE IN INSTITUTIONAL STRUCTURE (MERGER)
- CHANGE POWER IN KEY PLAYER STRUCTURE (NEW ASSIGNMENT)
- CONVINCING OPPONENTS OF REFORMS (SON OF PRESIDENT)
- COMPENSATION: TRANSFERS TO LOSERS OF REFORMS (TRAINING)
- PARTIAL IMPLEMENTATION OF REFORM (30%)
- COALITION BUILDING (DOCTORS & MINISTER OF EDUCATION)
- SANCTIONS (STOP BUDGET SUPPORT)

# IMPLEMENTATION – CHANGE POWER RELATIONS

1. Reform Analysis

2. Institutional Analysis

3. Political Risk Analysis

4. Feasibility Analysis

5. Implementation

## Enhance Power of supporters

- Create coalition of supporters
- Enhance legitimacy
- Increase access to political leaders
- Increase organizational strength
- Increase public support

## Decrease the power of opponents

- Undermine legitimacy of opposition
- Decrease public visibility
- Decrease organizational strength
- Reduce opposition coalitions

## Strengthen the position of supporters

- Persuade supporters to change
- Publicize supporters' position
- Remove objections
- Add additional policy elements
- Add more benefits

## Weaken the position of opponents

- Compensate opponents
- Seek common goals
- Add additional policy elements

## Increase the number of supporters

- Create new organization
- Persuade non-mobilized groups
- Attract political leadership
- Change decision making

## Decrease the number of opponents

- Find persuasive mediator
- Change decision making process
- Negotiate on other issues
- De-mobilize opposition
- Remove existing organizations
- Threaten legal action
- Increase public support



# POLITICAL ECONOMY ASSESSMENTS

1. Reform  
Analysis

2. Institutional  
Analysis

3. Political Risk  
Analysis

4. Feasibility  
Analysis

5. Implemen-  
tation

## IMPLEMENTATION – COMMUNICATION STRATEGIES



- RAISE AWARENESS
- PROVIDE EVIDENCE
- INVOLVE MEDIATORS
- PROMOTE REFORM



25

# POLITICAL ECONOMY ASSESSMENTS

1. Reform  
Analysis

2. Institutional  
Analysis

3. Political Risk  
Analysis

4. Feasibility  
Analysis

5. Implemen-  
tation

## CHALLENGES

- INVOLVED VS. NON – INVOLVED RESEARCHERS (HIDDEN AGENDA)
- PUBLIC VS. NON-PUBLIC REPORTS
- SHORT TERM PROGRAM DELIVERY VS. LONG-TERM OUTCOMES
- SOPHISTICATED VS. QUICK & DIRTY ANALYSIS
- TECHNOCRATIC AID VS. INVOLVEMENT IN POLITICAL AFFAIRS OF STATES
- LACK OF NEGOTIATION AND COMMUNICATION SKILLS

⇒ BUT CAN BE OVERCOME ...

# MIND THE POLITICAL ECONOMY!