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[OCCASIONAL PAPER NO. 3, SEPTEMBER 2010]

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The Practice of Political Economy Approaches to Economic Reform

V. Bruce J. Tolentino, *Director, Economic Reform and Development Programs, The Asia Foundation*

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INTRODUCTION

The international Commission on Growth and Development's 2008 review of international development experience in the era since World War II lists nine Asian economies among the 13 in the world assessed to be "growth success stories": China, Hong Kong, Indonesia, Japan, South Korea, Malaysia, Singapore, Taiwan, and Thailand.[1] India and Vietnam are added to this short list due to their more recent growth surges. Examining the performance of these "growth stars," *The Growth Report* (2008) points out that these economies: fully exploited the world economy; maintained macroeconomic stability; mustered high rates of saving and investment; let markets allocate resources; and had committed, credible, and capable governments.[2]

More significantly, it seems that the "growth stars" did not abide by the formulaic "Washington Consensus" — that is, the package of economic policy recommendations-cum-conditionalities made up of: fiscal discipline, reorientation of public expenditures, tax reform, interest rate liberalization, unified and competitive exchange rates, trade liberalization, openness to direct foreign investment, privatization, deregulation, and secure property rights[3]. Instead, these economies carved out individual, unique reform paths, in many cases marked by policies considered unorthodox and inappropriate in mainstream economics, including: respect for private property, but with eminent domain often invoked; powerful insiders/families in corporate governance; close cooperation between government and large businesses; state-mandated cartels such as the *chaebol* and *zaibatsu*; dominant state-owned enterprises; heavy, government-directed lending; restricted capital markets, and inflexible labor markets.

Asia's modern growth experience suggests a number of lessons, starting with the view that success in the promotion of economic growth is the result of development strategies crafted to suit the unique conditions of each country, not the uncritical employment of universal policy packages such as the "Washington Consensus." In this view, development challenges are complex and unique to each country; and thus, while successful development programming observes common fundamentals, country-specific programs need to be designed according to each country's unique circumstances. Furthermore, these programs need to be implemented by the direct country stakeholders themselves. This experience has lent credence to the call for "country-led, country-owned" growth strategies based on pragmatic processes of self-discovery, and a highly selective focus on relieving the "binding constraints" to growth[4].

However, even with all this experience in, and analysis of, development processes, there continues to be a wide chasm between development analysis and development practice. This conundrum appears most starkly in the operations of international multilateral and bilateral development agencies — in the industry

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[1] Commission on Growth and Development, "The Growth Report: Strategies for Sustained Growth and Inclusive | Development," 2008. The non-Asian "growth success stories" are those of: Botswana, Brazil, Malta, and Oman.

[2] One may doubt "market-led resource allocation" in the case of China. But as Lin and Monga (2010) point out, "While successful countries may differ in the intensity and strength of their property rights systems, they all adopted a well-functioning market mechanism that provided adequate price signals, transparent decision-making and good incentives." Their governments also did not resist the market forces in the reallocation of capital and labor from sector to sector, industry to industry.

[3] For a succinct treatment of the "Washington Consensus," See Dani Rodrik, *Goodbye Washington Consensus, Hello Washington Confusion?* Harvard University, January 2006.

[4] The seminal treatment of "binding constraints" is by Ricardo Hausmann, Dani Rodrik, and Andrés Velasco in *Growth Diagnostics,* Harvard University, 2004.

of development economists and consultants who provide technical assistance to countries on economic growth and development. Here the gap between technical prescriptions and real-world, operational economic governance seems the greatest. How can the results of development analysis be usefully incorporated into development operations? How can the findings from growth analysis performed by academics and researchers be translated into concrete policy agendas that can be successfully understood and taken to heart by policymakers, political leaders, and opinion makers? How can policy and strategy be operationalized by public bureaucracies subject to varied incentives and influences, both internal and external? How can development interlocutors and reformers deploy the results of economic research and analysis in effective political processes that achieve positive economic reforms?

This paper sketches out the operational features of emerging political economy-based approaches to sectoral economic policy reform. Section 1 traces some of the literature on the political economy analysis of reforms. Section 2 outlines the international development community's increasing recognition of the political economy aspects of economic governance, and their efforts to undertake sharper political economy analysis of reform challenges. Finally, in Section 3 the paper identifies elements of operational reform approaches that move beyond disengaged political economy analysis towards on-the-ground implementation of political strategies in policy reform processes.

THE BELATED RECOGNITION OF POLITICS IN REFORM PROCESSES

Gerald Meier (1991) offers a model of the "policy formation process" as illustrated in ***Figure 1.*** Economists, taking a stance as independent professionals, offer analysis and prescriptions to policy makers, who are subjected to state- and society-centered forces. Policy outcomes result from choices made subject to constraints and influences. Meier's conception overlooks two points: first, that economists' prescriptions and predictions, if fully worked out, would indeed consider the dynamics of context and players — the political economy of policy choices — and second, that in government there is a fundamental separation between policymakers (politicians) and policy implementers (bureaucrats). This separation varies depending on the structure of government: the divide is quite stark in Presidential systems; less so in Parliamentary arrangements.

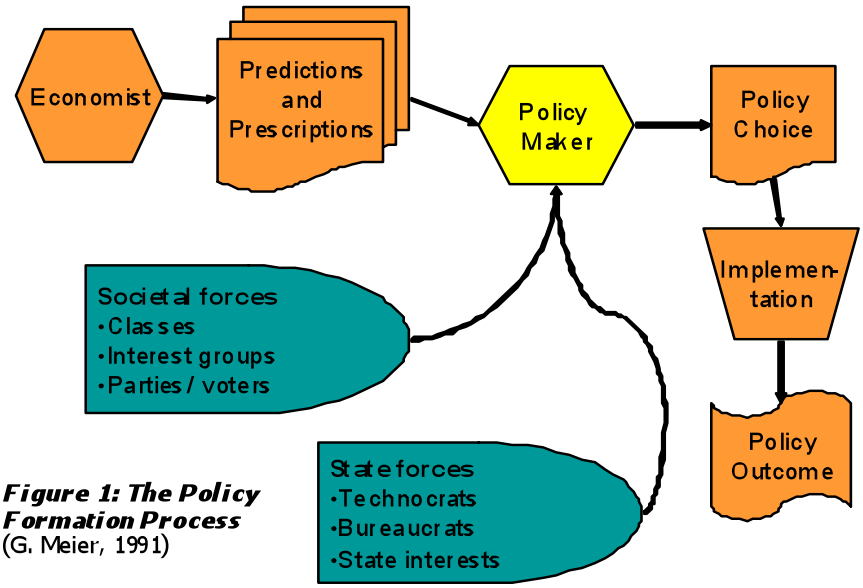

Figure 1: The Policy Formation Process
(G. Meier, 1991)

In ***Figure 2,*** we extend Meier's conception to indicate the role of the governance structures in policy reform and implementation, showing that in order to ensure that reforms do take place, attention to policymaking alone is inadequate, and attention to the implementation phase — managed largely by bureaucrats — is also necessary. It is not only policymakers who are subject to the influence of interest groups and other stakeholders. Bureaucrats are exposed to these same influences, and their reactions may differ from those of the policymakers.

Overall, the record of economists' influence with politicians and bureaucrats is rather spotty:

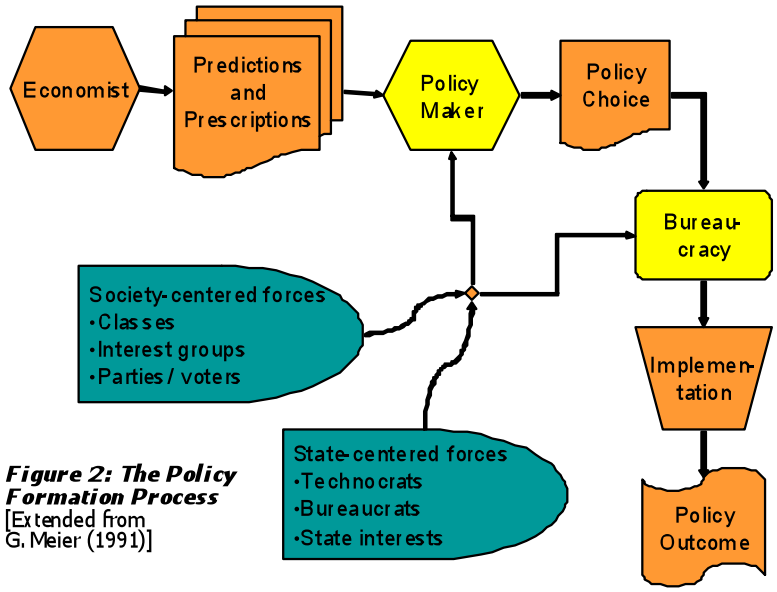

Figure 2: The Policy Formation Process
[Extended from G. Meier (1991)]

> *Economists have always been better at telling policymakers what to do than at explaining why policymakers do what they do. Indeed, many applied economists would consider the second area to lie outside of their area of expertise. When pressed to explain why practice so often diverges from prescription, economists instinctively take refuge in the blanket category of "political motives." These two words are highly effective as a conversation stopper: they act as a universal answer to all puzzles related to policymaking, choking off further inquiry.*[5]

Development analysts and donors are now recognizing, somewhat belatedly and reluctantly, that reforms are shaped by the context of political decision-making, and awakening to the question of how politics affect economic choice. Concerns about power and authority are particularly relevant, since there is always *conflict* among the competing interests of different economic actors. How does a society make collective policy decisions that affect it as a whole, given conflicting interests? How do individuals, classes, or groups gain power or authority, or attempt to shape the ultimate societal choice to reflect their specific preferences?

The political economy approach focuses on the problem of choice in a society with heterogeneous agents.[6] The analysis centers on the processes by which decisions on policy are made, and more

[5] Sturzenegger, Federico and Mariano Tommassi (eds.), *The Political Economy of Reform*, Massachussetts Institute of Technology, 1998.

[6] Allan Drazen, "Conditionality and Ownership in IMF Lending: A Political Economy Approach," Paper prepared for the Second Annual IMF Research Conference, November 2001.

specifically, on the policy choice that emerges from a specific political process. The issue is not the *technical* problem of the implication of different weights, but the *political* problem of how the weights are chosen — the question, in effect, of how conflicts of interests are resolved, and the economic consequences.

Political economy observes that actual policies are often quite different from ‘‘optimal’’ policies, the latter defined as being subject to technical and informational, but not political, constraints. The political constraints, in turn, arise from conflicts among competing interests and the need to make collective choices in the face of these conflicts. Were there no competing interests, the choice of economic policy would be that of the social planner maximizing the utility of the representative individual.[7] The view that economics is the study of the *optimal* use of scarce resources contains an implicit, but crucial, assumption when applied to policy choice, namely, that *once the optimal policy is found*, *it will be implemented*. The problem of policy choice is simply a technical or computational one. It is taken as automatic that, once the optimal policy has been calculated, the policymaker implements it.

The solutions generated by standard economic analysis often exclude political as well as operational considerations in weighing and deciding on options for policy and strategy. This approach, some argue, is “exceedingly technical,” ignores political incentives and motivations, and is likely to fail. Indeed, it has become quite clear that academic or purely technical approaches to policy reforms, along with conditionalities and policy actions usually organized as structural adjustment programs, have not worked. Political economy is the study of political trade-offs and their consequences. Trade-offs happen because all political decisions have redistributive effects. The process does not necessarily privilege some actors at the expense of others, but typically, even if political decisions are widely agreed upon, some actors will gain more than others (explaining the common instability of such agreements[8]). Moreover, in many policy decisions the various actors have differing capabilities and opportunities for organized and effective participation and influence in the decision-making process, and actors who are more concentrated and organized have greater influence on policymaking and legislation.[9] Thus, the political process may *bias* the result away from the socially preferred solution. While society as a whole might benefit most from efficient and desired outcomes, the outcome emerging from the political process, even if efficient in a narrow economic sense, may be different from the theoretical optimum.

GROWING INTEREST OF THE INTERNATIONAL DEVELOPMENT COMMUNITY IN POLITICAL ECONOMY ANALYSIS

Over the past two decades, more literature on growth and development practice and more analytical research into reform processes have emerged, helping to fill the gap in the political economy analysis of policy reforms. The development community’s attention to economic and political aspects of development has intensified, beginning with many aid organizations formulating approaches to social and political analysis. Overall, the new “international aid architecture” of country-driven development strategies, following the *Paris Declaration on Aid Effectiveness* of 1995, has opened up space for more

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[7] Allan Drazen, *Political Economy in Macroeconomics,* Princeton University Press, 2000.

[8] As well as the oft repeated: “In politics, there are no permanent friends or permanent enemies, only permanent interests.”

[9] A current example is the large (in the aggregate) but quite diffused interests of medical care users vs. the highly concentrated interests and lobbying power of medical care providers and insurers in the health care debate occurring in the U.S.

reflective aid approaches that consider the political economy risks to sustainable and effective policy reform, and which adopt a more nuanced and operational perspective of "country ownership." Disappointment with experiments in structural adjustment guided by the "Washington Consensus" has pushed donors towards more complex views of their engagement with development partners, particularly regarding institutions and conditionalities. For example, a World Bank review of lending practices from 2005, "Conditionality Revisited," states:

> *Careful review of the country's political economy and of stakeholders' concerns is required to identify the scope for a sustainable reform program. Given the complexity of country situations, such an assessment goes beyond a simplistic notion of ownership that presupposes a uniform government position or a full consensus. It would not be sensible to suppose that all recipient countries are functioning democracies, respond to the interests of the majority of the population, avoid elite or foreign-interest capture, and maintain a stable course on reforms….*[10]

Similarly, DFID's most recent White Paper, "Building our Common Future," underlines the need for DFID staff to "think (and act) politically":

> *…The UK will increasingly put politics at the heart of its action. We need to understand who holds power in society so we can forge new alliances for peace and prosperity…. In the future, understanding political dynamics will shape more of our programmes. This will change the decisions we make about how we spend our aid budget, what we want to focus on and who we want to work with.*[11]

There has been growing concern among development practitioners over the political economy risks associated with reforms and development operations. At the same time, there has been a shift away from rather rigid policy conditionalities associated with the structural adjustment era, towards more flexible approaches that emphasize reform processes underpinned by long-term country commitment. For development practitioners this has a number of implications. Accumulated learning in development assistance now indicates that attitudes and behaviors need to be geared to facilitating and supporting change rather than enforcing or demanding it. Sensitivity to context is also essential, especially sensitivity to the political dynamics of policy change — how reforms get tabled and why; how these are perceived; and who will support, oppose or attempt to change the proposals which have been made.

Implementation of economic and development policy is a complex, fragmented, multi-dimensional and highly unpredictable process, as well as an opportunistic one. A political economy lens broadens the operational view beyond technical solutions to include an emphasis on stakeholders, institutions and processes by which reform is negotiated and played out in the policy arena. Recognition of the importance of the political economy context for reform has been accompanied by a growing emphasis on effecting policy change through dialogue and consensus building, rather than through the use of somewhat blunt and often ineffective conditionality instruments.

Common to the adjustments being made by donors has been the goal of better understanding the social, political, cultural, and institutional contexts of the countries they work in. Different donors have developed different approaches that match their particular principles, operational priorities, and the

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[10] Stephan Koeberle, *et al,* (editors), *Conditionality Revisited: Concepts, Experiences, Lessons.* World Bank, 2005.

[11] Department for International Development, United Kingdom, "Eliminating World Poverty: Building our Common Future," July 2009.

institutional frameworks of the respective agencies. In some cases, multiple instruments emphasizing different social or political dimensions or different analytical lenses have been developed within individual agencies. The donor agencies which have generated the most extensive research on social and political analysis have been the United Kingdom/ Department for International Development (*Power and Drivers of Change*), U.S. Agency for International Development (*Democracy and Governance Assessments*), Swedish International Development Agency (*Power Analysis*), GTZ — German Agency for Technical Cooperation (*Governance Questionnaire*) and the World Bank (*Country Social Analysis*). The different donor approaches to social and political analysis reveal significant conceptual commonalities.[12] Despite different objectives, particularly between the broader political economy approaches and the frameworks for addressing conflict, there is important overlap in their analytical models. All of the frameworks consider key political economy variables, including *institutions* and *actors.* Regardless of the particular focus, such as governance, state fragility, or conflict, these two dimensions are consistently included as central aspects of the different analyses.

With slight variations, power relations feature in all the approaches. The more governance-focused studies, such as the DFID's *Drivers of Change*, SIDA's *Power Analysis*, GTZ's *Governance Questionnaire*, or USAID's *DGAs*, are primarily interested in the distribution of political power. In the various conflict analyses, power is generally considered in terms of access to resources and their impact on conflict variables. DFID's *Social Exclusion Analysis* stresses social power exercised through social structures. More generally speaking, the conflict analyses put more emphasis on economic factors than the governance-oriented studies. Finally, USAID's *Fragility Assessments*, although also focused on governance, take a strongly state-centered approach, while the other studies tend to consider broader social dynamics.

One *analytical* difference between the donor agencies (as distinguished from the differences in *approach* just discussed) can be found in the use of "structures" as an analytical concept. Only DFID and SIDA make explicit reference to underlying structural factors. For instance, DFID's DOC approach identifies structures as important contextual factors for pro-poor change, while institutional dimensions are viewed as mediators between these structures and local actors. There is a more explicit focus on good governance and promotion of democracy in the GTZ *Governance Questionnaire* and USAID's *Democracy and Governance Assessment*, while SIDA's *Power Analysis* and DFID's *Drivers of Change* emphasize opportunities for pro-poor development.

The World Bank proposes the following three key considerations for effective engagement by development agencies in sector level policy reform:

1. *The importance of good political economy analysis, applied early in the process, to effective donor engagement in sector policy reforms;*

2. *The significance of a sustainable process of building coalitions for change that involves dialogue with a broad range of stakeholders, including development partners, policy makers and the public;*

3. *The importance of promoting transformative processes of institutional change, including empowering forms of bottom-up accountability.*[13]

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[12] This section draws from World Bank — Social Development Department, "Understanding Socio-Economic and Political Factors to Impact Policy Change," November 2006.

FROM "THINKING POLITICALLY" TO "ACTING POLITICALLY"

Despite repeated efforts, including many undertaken and supported by international development agencies and donors, broad-based and sustainable economic growth remains an elusive goal in many countries. The spotty performance of governments and development agencies in promoting growth and development has not been for lack of analysis. It has seemed quite easy for development analysts to point out weaknesses in economic policy in various countries. Entire menus of much-needed reforms to spur growth in various countries have been identified in many studies and analyses. But implementation of the solutions recommended by analysts, and therefore their effectiveness, has remained wanting. It seems that the principal challenge lies not in identifying what reforms are necessary, but in figuring out how the reforms are going to be implemented, achieved and sustained.[14]

Moreover, in those countries where rapid growth has been achieved, comprehensive explanations of how it was done have been few and far between. In recent years, the catch-all explanation for many aspects of development experience has been "governance" and "institutions" (North, 1990). However, these code words refer to very broad swathes of human existence and interaction, not to mention history and culture, and are thus not very useful in the formulation and execution of operational strategies and activities that promote and facilitate positive reforms.

Political economy is, of course, not a new field of study or area of concern. What is new is the growing *application* of political economy analysis to current problems in economic development; and what is even newer is the deliberate *implementation* of political economy approaches in development programming and economic reform, where development agencies and interlocutors directly support and engage economic governance and policy reform "in the trenches." Such work thus occupies unfamiliar territory in the world of development programming: at the crossroads between economics, political science, and public administration; between research and direct implementation, and between the development practices of the large multilateral and bilateral development institutions on the one hand, and national reformers and local coalitions on the other. Accumulated field experience indicates that successful economic growth and development require not only the correct policies to "get prices right," but also the appropriate institutions to ensure security of property rights, enforce contracts, stimulate entrepreneurship, nurture international integration, maintain macroeconomic stability, manage financial risk, supply social safety nets, and enhance transparency, voice and accountability.

"Acting and thinking politically" is also out of the comfort zone of most development agencies. The relatively few agencies that have adopted political economy outlooks and related strategies in their operational development projects have carefully and somewhat hesitantly evolved their current approaches. These agencies are also continually reviewing their work, since the implementation of political strategies in economic reform is institutionally difficult and challenging. Even when impressive successes in policy reform are achieved through use of political economy approaches, on the whole the agencies remain conservative in promoting the institution-wide adoption and practice of politically enriched approaches. Such conservatism is not surprising, since, to begin with, these agencies well realize that economic reforms which change the distribution of costs and benefits across society inevitably have

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[13] World Bank, *ibid*. November 2006.

[14] An early attempt to document direct experience in the transformation of policy analyses into policy implementation is: V. Bruce J. Tolentino, "Priorities and Politics: Some Aspects of Decision-Making on Agricultural Research Resources in the Philippines," presented at the Conference on Priorities on Agricultural Research," Australian Council for International Agricultural Research (ACIAR), Canberra, 1991.

political aspects and impact, and thereby entail more risk to their institutional reputation and continued operation. This risk is exacerbated when international development agencies address, directly or peripherally, a host nation's domestic policy reform challenges, thereby inviting concern over sovereignty issues. In many of these cases the host governments may threaten to revoke the agency's permission to enter or continue to operate in the country, and the privilege of in-country presence is thus at risk. Indeed, reform efforts focused on any non-trivial economic issue will entail more risk to the players — development agencies, donors, actors, and partners. Meaningful reform efforts tend to challenge entrenched and vested interests, who will undoubtedly be resistant to reform. The interests and incentives of powerful actors and institutions are usually aligned to preserve the status quo.

Moreover, the on-the-ground implementation of political economy approaches to economic reforms often entails choosing between policy positions and players, making the commonly avowed preference for "neutrality," and the line between interlocutor and advocate, very difficult to maintain.

Because political economy approaches to reform have clearly been more effective than other approaches, they have provoked more resistance. That resistance may range from simple denial, to debate and dialogue informed by empiricism or popular sentiment, to debate at various levels of public openness, to pushback involving attacks on professional and institutional credibility and even personal safety. Moreover, these dynamics may take place quietly and privately, or publicly and openly in the media, heightening risk. Thus any serious reform effort must be prepared to persevere, and include provisions to anticipate, forestall, and deal effectively with resistance and pushback. It is naïve for reformers and their supporters to rely solely on civil dialogue processes to resolve policy issues and defuse resistance.

"Acting Politically": Emerging Techniques

Recognizing the risks inherent in policy reform efforts, it behooves reform-oriented agencies to build their political economy approaches deliberately, and with caution. Thus it is not a surprise that there is little documentation on political economy approaches, and even less literature on any systematic *methodology* amenable to organized *knowledge transfer* initiatives.[15]

In essence, however, an operational political economy approach to reforms begins with analysis (diagnosis and metrics), flexible project activities (support for advocacy and engagement by selected partners and reform actors, dialogue), and implementation assistance — that is, activities far beyond broad policy reform analysis, including help for stakeholders to achieve and sustain reforms. For any economic reform challenge, there is an ongoing "business model" that benefits a defined subset of stakeholders, who of course have strong incentives to support and defend the status quo and thereby thwart reform.[16] Thus any reform effort must first carefully analyze and understand the prevailing business model.

Research in general, and metrics in particular, are crucial to the design and implementation of reform efforts. Research identifies and measures the dimensions of needed reforms, and establishes baselines, goals and performance benchmarks for the reform effort. A key example of such surveys is the Economic

[15] For example, see The Asia Foundation, "Economic Growth Hubs, Infrastructure and Competitiveness," Unsolicited proposal submitted by The Asia Foundation to USAID, 2009; and V. Bruce J. Tolentino, "The Asia Foundation and Political Economy Approaches to Economic Reform and Development," the Conference on *Knowledge Sharing for Development: In Search of Best Practice,* Korean Development Institute, Seoul, November 2009.

[16] This formulation is owed to Jaime Faustino, Director of Economics Programs, The Asia Foundation, Philippines.

Governance Index (EGI) developed by The Asia Foundation. As decentralization has spread across Asia, elected local officials are eager to be seen as successfully promoting investment and job-creation, while voters and investors are keen to measure the performance of their local officials. But performance measurement is difficult, because standards must be relevant and comparable, while also falling within the actual sphere of influence of local officials (at least in the short run). Most existing methods focus on outcomes that are not under the local government's direct control, such as the percentage of the labor force that is employed, the Human Development Index and the economic growth rate. The EGI survey and indicators are tailored to specific country contexts, and focus on aspects of governance which local governments do influence. The survey enables the calculation of the EGI, which measures the quality of economic governance and enables comparisons across jurisdictions. The survey is based on actual practice and business perceptions, rather than legal frameworks. Typically, investment climate surveys measure key infrastructure endowments, such as transport logistics, which are not easily altered by local governments. The EGI survey and analytical approach deploy statistical controls for these factors and focus on how well local leaders manage the delivery of business services and undertake initiatives to improve their business climates. Thus the EGIs emphasize policies, initiatives, and performance of the local authorities, setting the stage for adjustments and reforms, and a baseline for measuring future changes.

Based on research and metrics, coupled with an understanding of the underlying business model, the reform agency develops a strategy to move toward a desired post-reform state by influencing the relationships and information flows among stakeholders. Clearly, this is easier said than done. Policy reform efforts are difficult, and policy reform efforts that are significant enough to require political economy approaches are more difficult still. Successful, politically informed reforms require skillful, on-the-ground programmers — nay, operators — who are in a position and have the requisite skills to interact intimately with policy stakeholders on all sides of the policy issue.

Given all the above caveats, field experience suggests certain features of a successful, operational, political economy approach to reforms.[17] These features include:

1. *Focus and sustained attention,*
2. *Thorough analysis and metrics,*
3. *Flexibility and timing,*
4. *Communications and perceptions,*
5. *Reform champions, coalition-building and mobilization,*
6. *Implementation assistance.*

1. Focus and Sustained Attention

It is quite obvious that the issues that require the government's attention are legion. In addition, there are many distractions and unanticipated preoccupations in the business of governance, including natural disasters, political fallouts, global events, and so forth. So focus must be achieved on a clear set of priority policy goals. Focus is necessary because the human resources that can be harnessed to deal with issues are invariably limited.

[17] Largely drawn from: V. Bruce J. Tolentino, "The Implementation of Policy Reforms in the Philippines," presented at the Expert Consultation on "Closing the Loop: the Interface Between NRM-Oriented Research and Policy Change,' International Service for National Agricultural Research and the European Center for Development Policy Management, Maastricht, the Netherlands, November 10-11 1997.

For government, choosing an issue as the focus of policy reform should be guided by the issue's impact on individuals, or by its being the strategic entry point to a whole set of changes whose impact will be significant.[18] The choice of focus for a particular department — say, the Ministry of Agriculture — is less problematic than for the government as a whole, because the range of choice is much more restricted, and therefore the political implications are less severe. Here the contrast between government and non-government reform actors in the degree of their discretion to act is apparent. Non-government actors have the luxury of carefully identifying those issues of significance that will be the focus of their interventions, while governments are expected by the public to be at least "doing something" about everything.

Setting priorities for reform can also be a matter of degree, rather than just either-or, reflected in the allocation of available resources. Issues that command a preponderance of available resources are of greater priority. It is important to note that the range of interventions and shares of resources are crucial aspects of the message that government conveys to the public. To generate favorable public perception, a minimum level of action and resources must be maintained over the broad range of concerns, even while allocating the bulk of available resources to a few issues of high priority.

Once focus is achieved on a set of priorities for reform, continued attention must be maintained through the stage of actual policy change and on to the implementation stage. While an actual change of policy is literally made in an instant — "at the stroke of a pen" as it were — that moment of change is typically the culmination of a long process by which the decision has been arrived at. Reforms are often incremental, involving gradual internal change in the attitudes and viewpoints of the policymaker(s). Reforms are achieved by patiently *chipping away* at the sources of resistance to policy changes, through continuing, persistent advocacy and the accumulation of evidence in support of reform.

2. Thorough Analysis and Metrics

Attention to key issues must not only be sustained; it must also be substantial. Thorough research and analysis on all aspects of the issue are required in order to identify the competing interests of, and the anticipated impacts on, each and every stakeholder. The Asia Foundation continues to refine and strengthen its capacities in development metrics and impact evaluation. Diagnostic components establish the baseline, pre-reform status of interventions, and later assessments enable much more rigorous evaluation of project impact. Stakeholder and issue analysis enable the provision of appropriate safety nets or other targeted programs to facilitate transition, encourage support, or neutralize resistance to reform.

Operational reform strategies informed by political economy analysis do not lessen nor eliminate the need for technical analysis and capacity, particularly among the project staff and counterparts. But the approach places technical expertise and assistance in context, and thereby optimizes the very expensive investments in technical advisors and experts, particularly where the dynamics of the reform process may stretch out over time, or unfold in unpredictable fits and starts. Finally the political economy approach significantly enhances the viability and sustainability of reforms by taking into full consideration and enabling the participation of key domestic interests in the formulation and execution of the reform strategy.

[18] To use a Dutch analogy: a critical reform would be to patch up the crack in the dam that if left alone would lead to the collapse of the entire seawall.

3. Flexibility and Timing

Reform processes are rarely linear, clear-cut and straightforward. Reforms proceed through various stages, from the realization that reform is needed, through several cycles of identification and analysis, to decision and action, and finally through implementation and maintenance. Moreover, the totality of reform processes does not take place overnight. Many reforms are implemented in increments and iterations, since there is often no assurance that reform actions will work as expected or projected. In essence, prudent and pragmatic implementation requires a series of small adjustments through repeated cycles of reform actions, informed by a clear sense of the staging, timing and sequencing of reforms, organized into options that reduce or blunt resistance to change.

The timing of reforms is critical, particularly in the maximization of enabling opportunities and "breakthrough moments" — those largely unpredictable historical confluences of public and stakeholder opinion, related events, and the readiness of policymakers and the bureaucracy to implement reform. Elections and the changeover of political leadership may derail reforms already in progress, or may enable their implementation or acceleration. Deadlines set by international agreements may force domestic compliance. Mass action or leverage exerted by major stakeholder groups may spark policy changes.

Changes in policy and policy implementation rarely result from a linear process of generating research, laying out policy options, choosing between alternatives, and implementing the selected option.[19] Rather, changes come about through an iterative process of interactions among four "streams" of activity: defining the problem, suggesting solutions, trying out options, and obtaining political consensus. Changes become feasible during those moments when these streams converge, presenting opportunities which can be grasped by vigilant proponents of reform.

A key implication of the realities of operational implementation and reform contexts is that it is very difficult to fit reform interventions into standard projects that feature pre-determined activities scheduled to be implemented within a defined schedule and deadlines. Moreover, in standard projects the donor's schedule, rather than the contextual reality, often emerges as the project schedule.

The need for ongoing and opportunistic action underlines the advantages of a continuing presence in the reform arena. This is often not possible for donor-financed and implemented projects, which have limited project lives within which donor preferences dominate the project's reform objectives. Thus, reform actors who establish a continuing presence and standing as honest brokers in the dynamics of countries have been able to make the best use of many opportunities for reform.

4. Communications and Perceptions

Information materials and the skillful use of the mass media are critical to policy advocacy. The results of research and analysis have to be translated from technical jargon into the language of politicians, policymakers and their supporters. Information materials need to be of various types, from policy-briefing documents, to policy-options memoranda targeted at decision-makers, to mass media releases suitable for broad audiences. Moreover, the authorship and origin of the information materials matters: information is

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[19] Robert Porter, *"Knowledge Utilization and the Process of Policy Formation: Towards a Framework for Africa,"* Support for Analysis and Research in Africa Project, U.S. Agency for International Development http://sara.aed.org/publications/cross_cutting/knowledge_utilization/html/utilization.htm#concl

often more acceptable, and thus more useful for advocacy, when the authors are locally known and locally credible.

Recent analysis of the determinants of policy attitudes among citizens and policymakers supports Bruce Johnston's observation, from a lifetime of advisory work, that policymakers decide less on the basis of "hard analysis" than on long held and experience-based "notions of development."[20] Blinder and Kreuger (2004), in the results of their survey on the economic knowledge of citizens, identify "ideology" as the most important variable determining public opinion on economic issues.[21] Clearly, once the development notions of policymakers and the public's ideology on economic matters are set, the influence of technical analysis becomes secondary. The mass media is undoubtedly an important instrument in shaping the notions and ideology of the public and policymakers.[22] Continuing and robust relationships with the media are therefore an important element of advocacy for policy reform, where experience indicates that relationships marked by open and frequent communication, enriched by a wealth of background material, often generates at least positive treatment, if not sympathy, for reforms.

5. Reform Champions, Coalitions and Mobilization

An important element of the strategies of successful policy reform actors is a focus on identifying and leveraging influential partners with genuine interest in reform. When reform-oriented projects are funded by official development assistance, the reform actors are often required to primarily work only with government counterparts, and this restriction places severe limits on approaches, methods and strategic choices in actions toward reform. Government units and officials often work within an incentive structure that resists reforms and will likely obstruct and not cooperate with reform activities.

There are additional complexities when reform actors are international in character and origin, since reforms are more likely to be sustained if perceived to be "locally owned." Thus, taking pains to identify and enable national and local reform champions is necessary and worthwhile. Development practitioners engaged in policy dialogue often have in-depth knowledge about the political economy of the contexts where they work, but their expertise tends to remain "hidden" due to the sensitivity of such issues in an ostensibly technical relationship with the client government. Indeed, policy champions are often necessary to put a problem on the agenda, bring a solution to the attention of decision makers, and galvanize political consensus. In order to make a difference, not only does information need to be disseminated, but champions using this information must make the case for change with those who can actually influence policies and their implementation.

The identification of policy practitioners and reformers is often achieved through the mobilization of extensive and long-standing country networks. The appropriate local actors have often worked independently, and typically with limited resources; they have developed their expertise through direct experience and extended study and monitoring of the issues. The contributions of credible spokespersons for reforms often facilitate the communication and advocacy process. Public figures are often accorded unparalleled opportunities to speak and be heard on issues. Once the initial barriers to communication are

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[20] Bruce Johnston, personal communication to the author, 1991.

[21] Alan Blinder and Alan Kreuger, "What Does the Public Know About Economic Policy, and How Does the Public Know It?" National Bureau of Economic Research, September 2004.

[22] The deliberate employment of mass media, public relations and advertising techniques recalls a quote attributed to Josef Goebbels, information minister of Adolf Hitler's Germany: *"A lie repeated often enough becomes the truth."*

broken, more complex and technical information may be provided by analysts to facilitate decision-making on the policy issues.

Flexibility in approaches and working modalities is necessary to enable useful collaboration with a wide range of key official and private stakeholders, to build an engaged constituency to negotiate difficult policy environments. The inherently political nature of policy issues means that coalitions must be built in support of reforms. The building of supportive coalitions is in fact necessitated by the existence of countervailing coalitions among those who currently benefit from the status quo. The development of constituencies can best be done by (a) building coalitions, formal or informal, among stakeholders and officials to promulgate critical reforms; (b) strengthening the capacity of those stakeholders to communicate the benefits of specific reforms; and (c) developing a deeper understanding of the interests, relationships, and leverage of those who seek to undermine the reform process.

Coalitions facilitate dialogue: representatives of opposing coalitions may be brought together to discuss the reforms and achieve mutually acceptable solutions. Dialogue among coalitions may also produce mutually supported ideas for transition mechanisms and assistance for those who lose from the reforms. Transition arrangements may involve "second-best solutions" — a short-term tolerance for less-than-perfect solutions, where some level of temporary inefficiency is accepted for a limited time.

Continuing communication and participation facilitate the policy reform process. The creation of institutions and structures that facilitate participation and communication is appropriate. This is particularly true in those contexts where policy disagreements may spiral into violence, as is the case in some countries in Asia.[23] The imaginative use of participatory structures, groups and meetings is demanded in advocacy: committees, task forces, focus groups, panels, advisory groups, steering committees, technical working groups, sectoral boards, and so forth are structures which facilitate the participation of diverse interest groups, organize and coordinate their input, and provide a formal mechanism for channeling such input toward mutually-acceptable decisions.

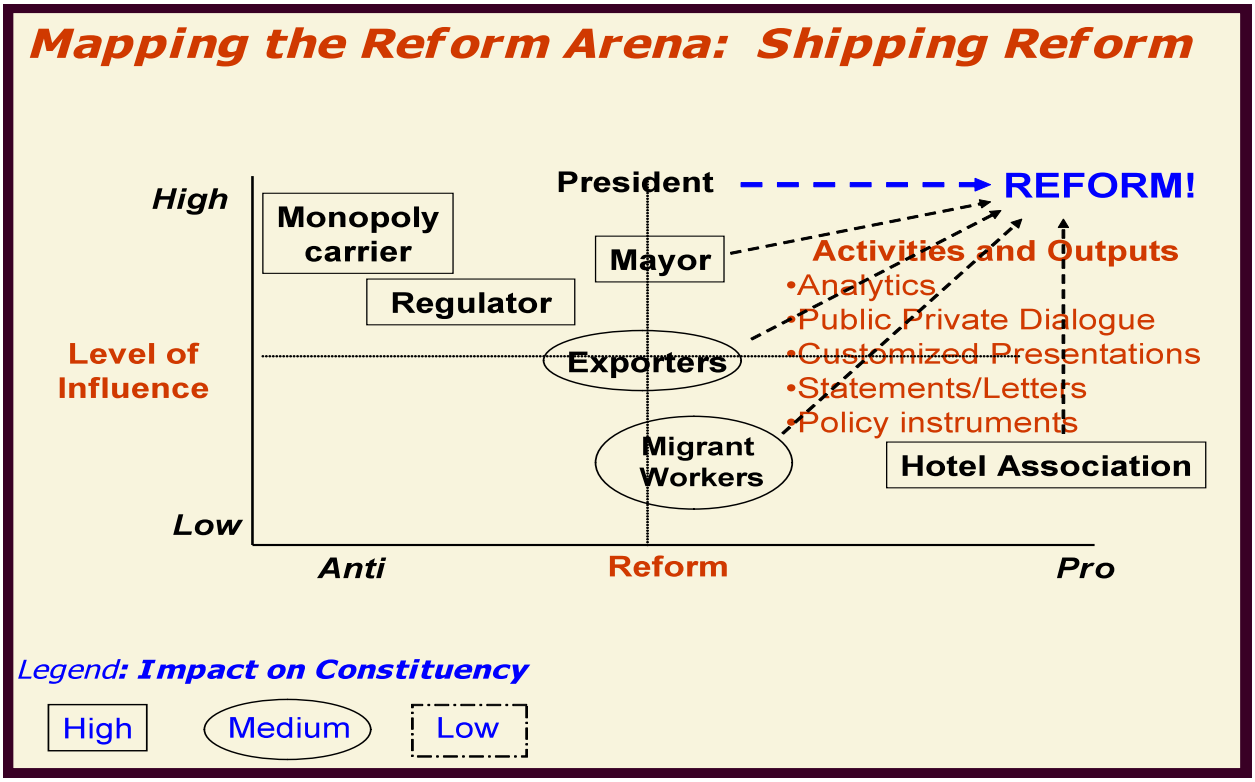
Meetings such as conferences, seminars, public hearings, summits, consultations, workshops, audiences, etc., particularly if organized on a regular or periodic basis, may be seen as time-structured steps in the provision of information and analysis, and encourage interaction and progress toward the resolution of issues. Such meetings are particularly useful when there is effective secretariat support that sets up agendas, distributes information on time, and produces meeting minutes which document the process. Finally, organized groups and meetings are of particular importance for governments, which often face expectations that they be unfailingly "doing something" — being pro-active in all situations. Having a committee and conducting a meeting is at least doing something, particularly in those instances when inaction is the appropriate action.

6. Implementation Assistance

A crucial concern in political economy approaches is the flexible allocation of project resources at various points and levels of the policy reform process. While entrenched interests have inherent advantages which allow them to resist reform, there are opportunities where reform is more likely to succeed because the case for reform builds to an intensity that can overcome existing barriers. As illustrated in ***Figure 3***, taken from an example of a transport sector reform process in the Philippines as implemented by The Asia Foundation, the identification and understanding of those opportunities, moments and policy junctures, mobilizing and coordinating reform stakeholders, and channeling the case for reform to key decision makers at strategic points, substantially increase the likelihood of success, and reduce the costs of policy

[23] As may be said in violence-torn countries: *"While people are talking, they are not shooting at each other!"*

reform efforts.[24] Furthermore, ***Figure 3*** represents the dynamics encapsulated in a single slice of the policy reform process, which is more accurately a series of reform *episodes* wherein the dynamics are reiterated again and again.



The mapping of stakeholders and the levels of their stakes in the reform outcomes enables the appropriate targeting of project activities, with the goal of building coalitions and support for reforms. Clearly, reform interlocutors have to be prepared for engagement in the very wide range of types of activities and inputs that may be necessary in the reform process. These activities range from the mundane to the grand, from day-to-day procurement of office supplies to the provision of inputs into the writing of national constitutions and laws. Policy advisers may deal directly with senior decision-makers, or indirectly through relatively junior staff or through partners.

Often, policy advisers are asked to handle tasks that may be outside of a policy adviser's usual or official terms of reference, including participation in both official and unofficial meetings where policy matters are on the agenda, one-on-one mentoring of officials and staff, editing and even drafting of English-language texts of letters, reports and speeches.[25] Moreover, since policymakers are often very busy, distracted and under intense time and social pressure, these tasks have to be done quickly and at odd days and hours. Yet a policy adviser's confident and straightforward handling of the whole range of tasks is

[24] Jaime Faustino, presentation of The Asia Foundation Philippines at Economic Reform & Development Theme Workshop, Singapore, February 2009.

[25] Long experience with policy reform processes has taught successful policy advisers that a responding, "That task is not in my terms of reference," to a request for, or expectation of help from policymakers is not good for a policy adviser's effectiveness, since it is often seen as unresponsiveness, and erodes trust and confidence.

crucial to the building of trust and confidence, ultimately facilitating influential and effective input into policymaking.

In reform initiatives where the interests of the government, national stakeholders and the international development community are involved, policy advisers are often forced to play the role of "honest broker." This is a difficult role, particularly when the views of the parties clash, and worse, when inconsistencies with development interests arise. The Asia Foundation has taken pains to focus on the best, long-term development interest of the host nation and economy, at times foregoing or risking donor support in the process.

CONCLUSION

Any serious effort to promote reforms must consider the political economy aspects of those reforms. International development agencies have often shied away from the political economy aspects of projects, citing institutional risk. Yet to NOT deal with the political economy aspects heightens the risk of project ineffectiveness. The most important concern, then, is how can development interlocutors consider as they should the political economy aspects of projects, while ensuring acceptable levels of institutional risk? Engagement in the implementation phase of policy reform processes, with full attention to its political dynamics, has emerged as crucial to successful economic reform. Reform approaches that are limited to the technical aspects of the reform issues are clearly inadequate: even when that approach is *informed* by political economy analysis, it still remains merely analysis, not action toward reforms. Progress in reforms requires support for reformers — helping them to build a strong case for change, mobilizing public and private reform constituencies, facilitating dialogue among the key stakeholders, and working with key decision-makers to identify the best way forward. Moreover, engagement with government and other key national and local actors in governance is imperative. Inputs from the international community can be helpful, but ultimately change will be successful and sustainable only if it builds on local ideas and commitment. Through discovery, on-the-job formulation and field-testing, this paper has outlined a *set of principles* for political economy approaches to economic reform and development.

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