Infrastructure & Cities for Economic Development

Guidance note:

Political Economy Analysis and VFM in infrastructure

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1. Background

1.1 Introduction

The goal of this guidance is to ensure that DFID advisers and service providers put interventions in their political context to improve value for money (VFM) in infrastructure programming.

The guidance shows DFID programme managers and implementing partners how to capture ongoing political economy analysis (PEA) systematically and *integrate* PEA into programming so that projects can identify and resolve political economy challenges and take action to improve VFM.

It states when and how this should be undertaken throughout the programme lifecycle. It is not the intention to provide a separate PEA tool – PEA is to be integrated across existing M&E systems and adaptive management tools.

As it is derived from work carried out by ICED VFM experts for DFID Somalia looking at infrastructure programming in particular, the guidance uses infrastructure and fragile and conflict affected states (FCAS) as reference points. In spite of this, much of the advice is **broadly applicable** across DFID programming.

1.2 Defining Political Economy Analysis

There is no single definition of Political Economy Analysis. This OECD-DAC definition highlights important aspects:

> *Political economy analysis is concerned with the interaction of political and economic processes in a society: the distribution of power and wealth between different groups and individuals, and the processes that create, sustain and transform their relationships over time.*

PEA is fundamentally how different ***interests*** of various actors in society are managed, and the power relations between them.

These political and economic interests are managed through formal institutions (e.g. institutions of the state), ***social institutions*** (e.g. clans and religious structures, patronage networks that may have different levels of formality in different contexts) and the ***social, political and cultural norms*** that govern and shape behaviour.

1.3 Gender and social inclusion within PEA

Gender equality and social inclusion (GESI) issues are factors within political economy and are also highly relevant to the equity aspect of VFM, in the DFID '4 Es' VFM framework. This paper does not explain in detail how to incorporate GESI principles within programme design and implementation, but it flags the overlaps between GESI and PEA.

Gender analysis investigates the power relations between individuals, groups and the broad range of formal and informal institutions in a society through the lens of gender constructs. This includes analysing the roles and perceptions of men and women in different spheres, patterns of privilege and exclusion and how these *influence political economy* and are *perpetuated* by it. Robust gender analysis is therefore key to good PEA as it leads to a better understanding of how the political economy *actually* works.

Ignoring gender relations overlooks key power relations and dynamics and so risks superficial or partial understandings of social, political, cultural and economic institutions (formal and social) and practices. Highlighting ways in which women/girls are included and excluded, and conversely, the ways in which different forms of male privilege operate sheds light on how political economy processes actually work in practice.

1.4 Political Economy and Value for Money

Integrating PEA into programming will reveal how changes in the context (the political economy) affect the implementation and outcomes of the programme. These are key determinants of VFM, though they can also be understood as project management challenges outside a VFM analytical framework. There are some specific VFM challenges that can result from political economy, such as delays (increased opportunity cost), cost increases (having an impact on economy or efficiency) and distributional effects (influencing equity). Likewise, there are opportunities to enhance VFM as PE challenges are surmounted and positive effects can be multiplied or programme budget reassigned to more productive activities.

The objectives of integrating PEA into programme design are to:

1. Identify from the design phase possible political economy (PE) effects – positive and negative - on VFM so that programme managers and implementing partners can make informed decisions.

2. Flag how changes in the context may affect VFM as a project is implemented, allowing programme managers and implementing partners to make any necessary adjustments to the project to safeguard VFM.

The effects of political economy on programming are sometimes obvious and inherent in programme design. For example, in programmes pursuing institutional and legal reform and capacity building, business environment reform, supporting democratic institutions or peacebuilding: the conflicting interests of stakeholder groups will be a direct focus of programme activities.

In other cases, the influence of PE on VFM may be less obvious at the outset. Most humanitarian programming, for example, is carried out at the personal or community level in highly complex social and political contexts involving inter and intra-communal conflict. Yet it is often – particularly in emergency and FCAS contexts – measured mainly on the basis of visible outputs such as the amount of physical aid delivered, without reference to the effects the aid may be having on the balance of power in local politics and conflicts.

This is not to say that humanitarian organisations, particularly locally based NGOs, tend not have strong awareness of local political economy; most could not operate without this. However, there is still a balance to be struck between pragmatism (for example, accepting some level of distributional control by local conflict actors in exchange for reaching vulnerable beneficiaries) and longer term negative effect (empowering conflict actors) which must be monitored, understood and agreed upon by both implementers and donors. Operating with high sensitivity to political economy also represents a challenge to VFM: consensus building and community level activities that are not directly related to aid outputs must be justified on the basis of necessity within local political economy dynamics.

Infrastructure programming that delivers physical infrastructure as a principal output is another example in which the effect of PE on VFM is not always acknowledged. Physical infrastructure is expensive and usually accounts for the majority of programme budgets. Delivery of the infrastructure itself is the main indicator of success. The political economy aspects – who benefits from the infrastructure, who controls it, the wider social and economic effects of building it, whose permission is needed for it to be built – are often secondary or even absent when programme outcomes are measured. Even if these are understood when the business case is drafted, shifts in political economy over time can lead to a quite different impact from that which was originally expected, sometimes leading to gradual attrition in VFM over time.[1] Operating mainly on a technical procurement and engineering level in infrastructure programming also makes projects vulnerable to delay, modification and cancellation due to unexpected PE shifts.

The advice in the rest of this paper concerns how to use political economy analysis within programme design and implementation alongside M&E and VFM frameworks to ensure PE challenges and opportunities are both foreseen and acted upon.

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[1] Adaptive programmes and those which operate over extended periods of time can legitimately adapt VFM and business case logic to respond to PE shifts. An illustrative example is DFID's Rural Access Programme in Nepal.

2. Integrating PEA into current infrastructure programming

2.1 Overview

PEA should be integrated into all parts of the infrastructure investment lifecycle. This means that service providers should be conducting and recording PEA on an ongoing basis using existing tools – particularly M&E systems and the tool for adaptive management. PEA should not be a standalone activity or have a parallel recording mechanism.

2.2 A. The Business Case

Building on the experience in Somalia, the business case should lay out a 'baseline' PEA. This should include, at least, the following main components:

1. Analysing the 'high political' landscape, including (potential) agents for positive/negative change, potential spoilers or champions of positive change.
2. Assessing the institutional landscape, the formal institutions at national / provincial / local levels and relationships between these, as well as the legislative framework. Potential blockages and opportunities should be flagged.
3. Analysing how power really works – the relationships between the formal and informal (or social) institutions: where power truly lies, how decisions are taken in practice.
4. Identifying potential winners and losers from the intervention, analysing the accompanying risks and mitigation strategies.
5. The baseline should include a robust Gender and Inclusion (G&I) analysis that assesses how the needs and vulnerabilities of women/girls and marginalised groups (disaggregated by sex) are met, how the assets and capabilities of these could be enhanced and the opportunities for and blockages to social transformation.

Note that for points 1-3 the PEA must integrate robust G&I analysis in order to be fit for purpose. Although the baseline will include specific sections on marginalised groups and women and girls, G&I considerations are not standalone and must be integrated throughout.

In designing the PEA methodology, care should be taken to identify potential bias in the PEA team, and ensure that the whole team is adequately prepared to include G&I considerations throughout, not as an add-on. The methodology for the baseline PEA should include, as a minimum:

- Desk review
- Preparation of common research framework including how to capture G&I findings across the board
- Interviews with inter/national stakeholders in the field
- Consultations with local communities (i.e. local political, social leaders)
- Consultations with different target groups, including with women and marginalised groups.

The baseline should also identify PEA objectives. Using the baseline PEA as evidence, the business case should lay out clearly what changes in the PEA are desirable for the project to achieve its outputs and outcomes. These should address at least the following areas:

1. **Desired change in governance** practice, both formal and informal, which includes:

a. What change in current governance practice is necessary to achieve the project's outputs and outcomes? Is this change realistic?

b. Which current governance practices should be strengthened, weakened, or avoided?

c. How do we expect the project to impact governance practice, including equity considerations? Are these likely changes in keeping with the project's and DFID's overall governance goals? Do we risk entrenching poor governance and/or exclusion of certain groups?

2. **Identification of target groups** (geographic/clan/religious/sex/age etc) to be included, including the impact of proposed change on these groups.

The PEA objectives should also demonstrate how these PEA objectives contribute to the overall objectives. Infrastructure projects affect the local political economy both as a (significant) resource as certain individuals and groups stand to gain (or potentially lose, at least in relative terms) wealth and other forms of power during implementation and in how the infrastructure affects the local political economy after completion. So the PEA component of the project is designed to ensure that the project's desired effect on the local political economy (including equity considerations) is clearly articulated and monitored so that it contributes directly to improved VFM.

Changes in the local political economy outside the scope of the project will also affect the project's effectiveness, and its VFM. In Somalia, as in other FCAS environments, local political and security contexts are dynamic – the opportunities and blockages for projects may change significantly and rapidly during the lifetime of a project – particularly in the case of infrastructure construction, which can be a lengthy exercise. The PEA components therefore contribute to a risk management system to highlight when changes in the local political economy require assessing and if necessary modifying the project.

On the basis of the baseline PEA and PEA objectives, the Business Case should identify some possible scenarios of changes in the PE (national and/or local) that would present opportunities – **green flags** - or blockages – **red flags** - for the project, including analysis of the potential impact of change on VFM for each scenario.

2.3 B. Inception Phase / Log Frame

1 Update, expand the PEA from the Business Case

During the Inception Phase, the PEA from the business case should be updated and expanded, including through deepening and broadening the stakeholder analysis in the BC, as the political and security context is dynamic. Significant changes from the PEA in the business case should be flagged and the potential impact of these on VFM and the project design reviewed.

2 Revise and develop more detailed PEA objectives

a. Create logframe assumptions from the updated baseline PEA across the project

b. Develop simple PEA indicators to flag change (positive, negative) in PE, design and build data collection into the broader M&E process. There should not be separate M&E for PE – the PEA indicators are integrated into the overall VFM and broader M&E processes. This ensures they are regularly considered regardless of how the project's teams are formulated.

c. Develop PEA outcomes from the PEA objectives, which capture the desired changes to the PE that will increase VFM and project effectiveness.

d. Integrate the PEA objectives and outcomes into the logframe as components of the project objectives and outcomes.

e. Develop indicators, or PEA-components to broader indicators to measure progress

3 **Articulate the process for capturing PEA and its impact on VFM on a rolling basis.** This is particularly important given the challenges around access in FCAS and the remote nature of much programming. This process is based on the assumption that the team has the knowledge, or access to knowledge for rolling PEA.

If possible, PEA should be headed by a specialist PEA adviser (possibly combined with the G&I adviser function, or working across more than one DFID-funded project in the portfolio), however the point of this process is to ***integrate*** PEA across the project, ***not to limit it to a particular function***. Where there is a PEA adviser, this function should manage the *process* more than the content.

If the team is too small to include a specialist PEA adviser, the function of managing the PEA process should be clearly assigned to an appropriate senior manager (such as the head of M&E) and the terms of reference for the function written into the manager's job description.

Whatever the configuration, a designated senior manager should supervise the process directly. This process may include

a. **Regular consultations**, informal conversations or more formal focus group type discussions, with:

    i. Beneficiaries / local communities.

    ii. local authorities / other stakeholders / marginalised groups.

    iii. Provincial / national authorities.

    iv. Ongoing information exchange with donors, international actors.

   The timing of these consultations will be largely determined by the logic of the project, but should take place in some form at least every quarter. Informal consultations should take place regularly, in keeping with the project's reporting processes. The findings (including no change) will be captured in the project's reporting mechanism (see below) – consultations should at the very least provide new information (even of 'no change') since the previous report.

   These consultations may be specific activities (as in the Energy Security and Resource Efficiency in Somaliland (ESRES) community-driven design processes) or can piggy back on and benefit from existing consultation processes. For example: Community-led procurement processes could prove valuable sources of information about local economic, social and political actors, their connections, and community perceptions of them.

   However, service providers need to **mitigate against confirmation bias** – they should not only listen to people who are engaged in or otherwise benefit from the intervention. They should actively seek out a diverse set of respondents, not all of whom should be stakeholders in the project, which include views from across political divides and voices of young people, women and other marginalised groups.

b. The findings of these consultations should be captured (even as 'no change' since the last report) and linked with VFM in an **appropriate project-wide reporting mechanism** that is received by the project's senior management, not as a stand alone PEA report. If the information is sensitive, reporting methods should take this into consideration and ensure that senior management is fully appraised of it.

c. **A quarterly PEA report** reviews logframe assumptions, notes positive, negative and neutral change and reviews the green/red flag and then validates the assumptions, or proposes changes to planned programming. If changes are proposed, the likely effects of these changes on the PEA assumptions, objectives, outcomes should be modeled.

d. Include PEA as a **rolling agenda point** during the weekly meetings between the Team Leader and DFID to encourage exchange of analysis and updates.

e. During the inception phase, the project team and DFID should identify the '**red-line' points**: positive or negative change in the PE that requires discussion with DFID about proposed modifications.

f. Identify **staff training/coaching needs** for the process. Ensure buy-in of management that PEA is fully integrated.

2.4 C. Annual, Mid-term Reviews

1 Trace how PEA objectives/results have informed programming and contributed to greater VFM (even when no change is the result)

2 Validate assumptions or flag significant changes

3 Revise project outcomes with DFID as necessary on the basis of significant change in the PEA assumptions that impact VFM.

4 Review effectiveness of rolling PEA mechanism: what lessons are learnt from the mechanism in practice? What changes could make it more effective?

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