Problem-Driven Political Economy Analysis

The World Bank's Experience

Verena Fritz, Brian Levy, and Rachel Ort, Editors
Contents

Foreword xi
Acknowledgments xiii
Abbreviations xv

Chapter 1 Problem-Driven Political Economy in Action: Overview and Synthesis of the Case Studies 1
Verena Fritz and Brian Levy

Introduction 1
A Problem-Driven Approach 4
Diagnosing the Political Drivers of Decision Making 7
"Evidencing" Political Economy Analysis 11
Policy Implications of Political Economy Assessments 14
From Recommendation to Action 19
Some Wider Lessons 23
Notes 27
Bibliography 28

PART 1 The Political Economy of Resource Allocation 31

Chapter 2 Dealing with a Resource Shock: Political Economy Analysis and Its Impacts in Mongolia 33
Verena Fritz

Introduction 33
Country-Level PEA 35
Political Economy Aspects of Key Spending Areas: Public Investments and Cash Transfers 48
Conclusion: PEA and World Bank Engagement during a Resource Boom 60
Notes 62
Bibliography 65
<table>
<thead>
<tr>
<th>Chapter 3</th>
<th>Assessing Public Opinion in the Political Economy of Reform: The Case of Energy Subsidy Reform in Morocco</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dorothée Chen, Andrea Liverani, and Judith Krauss</td>
</tr>
<tr>
<td>Introduction: Subsidy Reform in Morocco, More Than a Technical Issue</td>
<td></td>
</tr>
<tr>
<td>Morocco's Subsidy Regime: Technical Challenges, Political Economy Drivers of Decision Making, and a History of Partial Reform</td>
<td></td>
</tr>
<tr>
<td>The Challenge of Acceptability: Capturing Public Views on a Potential Reform to Subsidies for Butane Gas</td>
<td></td>
</tr>
<tr>
<td>Moving toward Impact: Evolving Efforts at Subsidy Reforms</td>
<td></td>
</tr>
<tr>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Bibliography</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PART 2</th>
<th>Political Economy Drivers of National Infrastructure Reforms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chapter 4</td>
<td>The Dominican Republic: Moving from Exit to Voice—Shifting Incentives in the Power Sector</td>
</tr>
<tr>
<td></td>
<td>Carlos Rufin, Davide Zucchini, Roby Senderowitsch, and Miguel Eduardo Sánchez</td>
</tr>
<tr>
<td>High Growth, Limited Inclusiveness, and Poor Public Service Delivery in the Dominican Republic</td>
<td></td>
</tr>
<tr>
<td>Service Delivery, Citizen Voice, and Opting Out</td>
<td></td>
</tr>
<tr>
<td>Poor Service Delivery in the Electricity Sector</td>
<td></td>
</tr>
<tr>
<td>Implications for Country Dialogue and Implementation of World Bank Projects</td>
<td></td>
</tr>
<tr>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Bibliography</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chapter 5</th>
<th>Using Political Economy Assessment to Reorient Sectoral Strategy: Infrastructure Reform in Zambia</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Brian Levy and Patricia Palale</td>
</tr>
<tr>
<td>Introduction</td>
<td></td>
</tr>
<tr>
<td>The Development Challenges</td>
<td></td>
</tr>
<tr>
<td>Assessing the Political Economy Constraints</td>
<td></td>
</tr>
<tr>
<td>Politically Feasible Entry Points for Electricity and Telecommunications Reform</td>
<td></td>
</tr>
<tr>
<td>Acting on the Assessment</td>
<td></td>
</tr>
<tr>
<td>Notes</td>
<td></td>
</tr>
<tr>
<td>Bibliography</td>
<td></td>
</tr>
</tbody>
</table>
## PART 3  Political Economy Challenges of National-Local Interactions in Sectors  143

### Chapter 6  Developing Commercial Agriculture in Ghana  145
*David W. Throup, Chris Jackson, Katherine Bain, and Rachel Ort*

- Strengthening an Enabling Environment for Investment in Commercialized Agriculture  145
- Ghana's National Political Economy  147
- Political Economy of Agriculture in the Accra Plains and the Northern Region  157
- Overall Implications: Options for Institutional Evolution Needed to Develop Commercial Agriculture  164
- Implications and Impact on the World Bank's Operational Engagements  169
- Notes  171
- Bibliography  172

### Chapter 7  Continuity and Change in Postconflict Sierra Leone: Why Politics Matters for Infrastructure Sector Reform  175
*Marco Larizza, Vivek Srivastava, and Kavita Sethi*

- Introduction  175
- Defining the Problem  177
- Political Economy Analysis and Findings  180
- Drivers of National Decision Making and Infrastructure: Examples from Roads and Power  193
- Overall Impact of the Analysis  201
- Conclusion  202
- Notes  204
- Bibliography  207

### Chapter 8  Formal Rules, Clientelism, and the Allocation of Project Funds across Villages in Papua New Guinea  211
*Zahid Hasnain, Philip Keefer, and Nicholas Menzies*

- Introduction  211
- The Planning and Budgeting Process for Local Projects  214
- Methodological Options in Political Economy Analysis  216
- Descriptive Statistics and Summary Indications that Politics as Usual Prevails  219
- The Determinants of Infrastructure Allocation  225
- Conclusion and Policy Implications  228
- Notes  229
- Bibliography  230
Chapter 9  Strengthening Local Service Delivery in the Philippines: The Use of Political Economy to Craft Bank Operational Strategies

Yasuhiko Matsuda

Introduction: Decentralization and Development Challenges in the Philippines 233

Background: Unpacking the Challenges Facing Local Service Delivery 237

Understanding Underlying Drivers and the Feasibility of Reforms: Political Economy Constraints and Incentives 241

Operational Implications 252

Using Political Economy to Inform Operational Decisions: The Bank’s Ongoing Efforts in the Philippines 257

Notes 258

Bibliography 260

About the Contributors 263

Boxes

3.1 Choice Variables to Determine Profiles 77
3.2 Key Conclusions 82
4.1 Summary of the 2009 Electricity Sector Action Plan 101
7.1 The Implications of (Neo) Patrimonialism 186
7.2 The Territorial Organization of Sierra Leone 188
9.1 Levels of Subnational Governance 234

Figures

1.1 Layers and Key Aspects of Problem-Driven Political Economy Analysis 5
1.2 The Spectrum of Reform Space 15
2.1 GDP Growth and Volatility 34
2.2 Key Commodity Prices and Political Economy Events and Turning Points 37
2.3 The Rapid Rise of per Capita GDP since the Late 1990s 38
2.4 Inflation, 2001–12 41
2.5 Overall Fiscal Balance, 2000–12 47
2.6 Rapidly Rising Capital Expenditures, 2003–11 49
3.1 Development of Subsidy Payments, 2003–11 70
3.2 Awareness of Subsidy System According to Socioprofessional Category 78
3.3 Perception of the Subsidy System: Who Benefits the Most? 79
3.4 Degree of Utility Attributed to Price Variations and Social Protection Programs 80

Problem-Driven Political Economy Analysis • http://dx.doi.org/10.1596/978-1-4648-0121-1
Contents

3.5 Reaction to DH 5 Increase in Price of Butane Gas 81
4.1 Theoretical Framework for Public Service Delivery 94
4.2 Percentage of Households That Have an Electrical Inverter or a Generator at Home, by Socioeconomic Class 98
4.3 Health Insurance by Socioeconomic Class 100
4.4 Reform: Influence-Interest Matrix 108
4.5 Policy Alternative 1: Tariff Rate Adjustments 110
4.6 Policy Alternative 2: Improve Management in EDEs First 111
5.1 A Utility’s Pricing, Investment, and Productivity Interdependencies 135
7.1 ODA-to-GDP Ratio, 2000-10 Average 178
7.2 Sierra Leone Governance Indicators, 2011 179
7.3 Women’s Representation in National and Local Elections 190
8.1 Governmental Units in Papua New Guinea 214
9.1 Road Projects and Electoral Competition 249
9.2 Health Outcomes and Vote-Buying 251

Maps

2.1 Mongolia 36
5.1 Zambia 124
6.1 Accra Plains and Northern Region, Ghana 148
7.1 Ethnicity as a Key Driver of Political Identities 185
B7.2.1 Districts of Sierra Leone 189
8.1 Survey Districts, Papua New Guinea 219
B9.1 Subnational Governance Levels, the Philippines 235
9.1 Isabela Province, the Philippines 247

Tables

1.1 Problem-Driven Political Economy—Eight Development Challenges 6
1.2 Types of Evidencing Used in the Eight Country Chapters 12
1.3 From Diagnosis to Recommendation: What the Assessments Proposed 16
2.1 Evolution of Key Social Transfers, 2003-12 55
3.1 Distribution of Subsidies among Income Quintiles 69
3.2 Social Protection Reform Options Envisaged by the Government Used in a Quantitative Survey 76
3.3 Overview of Energy Subsidy Reform in Morocco, June 2012 84
4.1 Stakeholders in the Dominican Republic Electricity Sector, as of 2010 106
5.1 The Relative Strength of Political Constraints to Infrastructural Reform 133
7.1 Social Development Indicators: Sierra Leone in Comparative Perspective 178
<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.2 Road Network: Sierra Leone in Comparative Perspective</td>
<td>194</td>
</tr>
<tr>
<td>7.3 Road Quality in Sierra Leone: The Citizen's View</td>
<td>194</td>
</tr>
<tr>
<td>7.4 Budgetary Allocations to the Road Sector</td>
<td>195</td>
</tr>
<tr>
<td>8.1 Research Districts</td>
<td>221</td>
</tr>
<tr>
<td>8.2 Knowledge of Local Government Institutions</td>
<td>222</td>
</tr>
<tr>
<td>8.3 Group Membership</td>
<td>224</td>
</tr>
<tr>
<td>8.4 Views of Candidate to Whom First Preference was Given in 2007 Elections</td>
<td>225</td>
</tr>
<tr>
<td>8.5 Correlates of Functional New Projects</td>
<td>226</td>
</tr>
<tr>
<td>9.1 Local Government Code: Vertical Distribution of IRA versus Distribution of Local Roads</td>
<td>237</td>
</tr>
<tr>
<td>9.2 Case Study LGUs: 2003–07 Income per Kilometer</td>
<td>238</td>
</tr>
<tr>
<td>9.3 Case Study LGUs: Expenditures versus Income, 2004–07</td>
<td>239</td>
</tr>
<tr>
<td>9.4 Case Study LGUs: Expenditures by Functional Categories, 2003–07</td>
<td>240</td>
</tr>
<tr>
<td>9.5 Bill Enactment Rates in the House of Representatives, 1987–2004</td>
<td>244</td>
</tr>
<tr>
<td>9.6 Bills Related to LGC by Category, House and Senate, 1987–2010</td>
<td>245</td>
</tr>
<tr>
<td>9.7 Members of Congress Who Are Former LCEs or Have Relatives Who Are Former LCEs</td>
<td>246</td>
</tr>
<tr>
<td>9.8 Distribution of National Legislators by Positions Sought in 2010 Elections</td>
<td>246</td>
</tr>
</tbody>
</table>