

Good Practice Note

Political Economy Analysis (PEA)



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POLITICAL ECONOMY ANALYSIS (PEA)

What is Political Economy Analysis?

Political economy analysis is an analytical approach to understand why things are the way they are and how formal and informal institutions, individuals, incentives, and power contribute to the performance of any system. It emerged during the 1990s primarily in governance programmes but tended to focus on technocratic tactics to improve governance. In the early 2000s, many large bilateral aid agencies modified the approach to include more emphasis on both the 'rules of the game' and the 'games within the rules'. Good PEA includes a mixed methods approach, blending primary and secondary research techniques, and should be updated as needed.

Why conduct PEA in MSD Programmes?

Market systems development (MSD) programmes seek to alter underlying incentives or relationships to align for pro-poor outcomes. Powerful actors and interests in public, private, or civil society often contribute to underperforming functions in market systems. Although PEA emerged as a methodology in the governance sector, its application is relevant to programmes working in most sectors, as vested interests and power differentials are not limited to formal governance programmes. PEA can complement other tools used during market system diagnosis to provide insight into how the changes a programme seeks to introduce may occur or not.

How to conduct PEA?

There are a range of existing frameworks¹ and methodologies. SIMPLER attempts to bridge how to understand political economy and intervene in a practical way.

- *Stakeholder Analysis*: Beyond simply documenting who are the stakeholders in a given sector, in a PEA context, this would include understanding who decides what, who influences their decisions, how do they influence them, and the implications for your programme. This can be a sensitive exercise and may be necessary to keep the details of the analysis as an internal document.
- *Interests and Motivation*: All MSD programmes are trying to influence the behaviour of market system actors. In order to be able to effectively influence people and institutions, understanding what their interests are and how strongly do they feel about maintaining the status quo or trying something new is fundamental.
- *Power*: Understanding who holds power, whether formally or informally, is a key step in the PEA process. This often involves assessment of the informal rules of business and politics as it may not be something that is formally documented and shared.
- *Leverage*: Leverage refers to prioritising where your facilitation efforts will focus. In many cases, this may not mean working directly with your target group. Rather it will likely be important to prioritise those who currently have the power to support or block your pro-poor innovation. It may be necessary to engage with both supporters and blockers of the proposed intervention.
- *Engagement*: There is no limit on what a programme might do to engage in a politically-savvy way. Contextual factors will shape what is most appropriate, but engagement tactics should respond to the interests and motivations of the targeted decision-makers.
- *Revisit*: It is increasingly recognised that PEA should not be a singular event or output delivered by an external consultant. Good practice is for programme staff to include PEA as part of their market

¹ See DFID's Drivers of Change; Sida's Power Analysis; Netherlands work on Strategic Governance and Corruption Analysis; USAID's Thinking and Working Politically Framework.

system analyses, but it should not stop there. The ‘thinking and working politically’ concept² – programme staff being able to understand and respond to changing power dynamics as part of their day jobs has gained traction as contexts change and teams need to be able to respond in real time.

Practical Tips

- *People:* Consider hiring staff who are more politically savvy or networked, particularly if sectors have been selected that have significant political economy constraints. Or build relationships with key informants who have access to powerful decision-makers in the business or political communities and can provide regular updates.
- *Process:* Much of PEA is about trying to triangulate between de facto and de jure policies and procedures. Ways to do this include analysing specific sector policies, reviewing spending documents (what gets budgeted for and what gets spent), and the practices of particular agencies of institutions. This needs to be triangulated with an understanding of whom – which specific individuals – are responsible for decisions that may influence the changes you are trying to introduce; which agencies and people within them have the incentive or capacity to change.
- *Product:* Many PEA documents remain a one – off, standalone document that ticks a deliverable box. In some cases, this may be a very sensitive document and a programme will need to use its judgement on how public the document will be. Increasingly, programmes are being tasked with conducting ongoing PEA analysis as part of their regular reporting and analysis, which may provide an incentive for staff to prioritise monitoring and responding to changes in the PEA environment. Even if a donor does not request this, it is good practice to regularly monitor and document such changes.

² <https://twpcommunity.org/>