

# Political Economy Studies: Are They Actionable?

Some Lessons from Zambia

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## Abstract

In recent years, the number of studies looking at the effect of politics on economic outcomes has flourished. For developing economies, these studies are useful to better understand why long overdue reforms are not implemented. The studies analyze the overall context within which reforms are being implemented and the underlying incentive framework. However, it seems difficult to make such studies actionable, especially in sectors where donors have a heavy presence that can sometimes distort incentives in addition to the reluctance from some governments to amend the existing systems

in place. This paper focuses on some conclusions emerging from the political economy diagnostics carried out in Zambia in various sectors in recent years. Based on interviews of World Bank task managers, the paper attempts to assess the relevance of these studies for the implementation of projects and the policy dialogue and draws lessons on how they have influenced the implementation of the World Bank's support to programs in various sectors in Zambia as well as the main challenges for this type of exercise.

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## 1. Introduction

In recent years, the importance of the political economy (PE)<sup>2</sup> analysis in influencing policy reforms has been widely recognized. PE considerations determine whether reforms are implemented and to what extent they are implemented. While it is recognized that institutions that govern a country influence the country's economic growth and development, (Rodrik, Subramanian, and Trebbi, 2002), it is argued that the development of good institutions is often not encouraged because they might not maximize returns for the politically powerful elite (North, 1981). Hence, weak and inadequate institutions are allowed to flourish resulting in limited support for sustained economic growth, disappointing reductions in poverty, and continued high levels of corruption and poor governance.

In its modern form, political economy studies refer to the study of the relations between political and economic processes which involve several factors such as incentives, relationships, and the distribution of power between various interest groups in society, all of whom have an impact on development outcomes. The fundamental idea is that to understand economic (development) performance, there is a need to understand first the politics that shapes it. Ultimately, political decisions determine whether growth occurs or Millennium Development Goals are achieved (DFID, 2010). Therefore, what PE analysis attempts to understand are the reasons why certain essential policies or programs are not being implemented, hence not resulting in desired development outcomes. The reluctance to implement such policies and programs is generally not based on economic considerations but is influenced largely by political considerations. Such political considerations could include the desire of policymakers to stay in power; to enrich themselves financially; to prevent political opponents from gaining power; and to dispense favors to supporters by preventing the introduction of new technologies, or improvements in the property rights of workers or competitors<sup>3</sup>. PE studies attempt to understand how political constraints (which arise from the need to make collective choice while dealing with conflicting and heterogeneous interests, and opportunistic behaviors) may explain the choice of economic policies (which are different from optimal policies) and how they affect the economic outcomes.

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<sup>2</sup> The use of the term political economy goes back to Adam Smith's work *Wealth of Nations* in 1776, and it is also found in the David Ricardo's and Karl Marx' works. What nowadays is understood as economics was called at that time "political economy" and referred to the "conditions of production organization in nation-states".

<sup>3</sup> See Acemoglu, Johnson and Robinson (2005).

In recent years, the number of studies that deal with the effects of politics on economics has flourished. These studies are particularly useful for developing economies in order to better understand why long overdue reforms are not implemented as they focus especially on the incentive framework. The emergence of an explicit political economy of development can be seen clearly in the evolving intellectual diagnosis of the “development problem” by donors and in how this diagnosis has translated into policy on development assistance to low-income countries (Adam and Dercon, 2010).

The studies dealing with PE analysis can be carried out at the (i) country level, dealing with issues of governance and decentralization; (ii) sector level, focusing on reforms in sectors such as electricity, transport, telecommunications, water, etc; and (iii) policy or project level.

For example, in a comparative analysis, Hickey (2006) attempted to identify the nature of politics most likely to reduce chronic poverty in developing countries. This analysis shed light on the politics underlying successful social protection policies, including pension schemes in India, Lesotho, Namibia and South Africa; assistance programs for vulnerable groups in Bangladesh and Mozambique; and mainstreaming social protection in national development plans in Uganda and Zambia. The author suggests that greater attention should be paid to interacting with the political leadership instead of civil society; to the link between political discourse and poverty analysis rather than simply focusing on poverty data; and to the importance of political contracts in sustaining pro-poor policies.

By analyzing the PE of sector reform in two sectors - agriculture, and water and sanitation, a World Bank study (2008) identified ways to improve the effectiveness of the policy reform process. By looking at stakeholder interests, incentives, institutions, risks and opportunities from a social analysis perspective, the study points out the need for development partners to establish a sustainable process for building broad coalitions and to promote transformative institutional change that includes supporting bottom-up accountability.

While PE studies appear to be useful in providing insight into the country context and facilitate a better and quicker understanding of the realities on the ground, translating PE analysis into action remains a challenge. Based on interviews of World Bank task managers, this paper attempts to assess the relevance of these studies in supporting policy reform and the implementation of projects and draws lessons on how they have influenced the implementation and design of the World Bank program in Zambia in various sectors.

The paper is structured as follows. Section 2 identifies the importance of carrying out PE studies. Section 3 briefly presents the PE analyzes conducted in Zambia. Section 4 discusses the implications of

the findings of PE studies for the implementation of projects and policy dialogue in Zambia. Section 5 addresses the remaining challenges and identifies the way going forward.

## 2. Why is it useful to carry out PE studies?

For several years now, the World Bank and other cooperating partners (CPs) like UK-DFID, OECD-DAC, EU, and the UN have been concerned about better understanding the political context and process in developing countries and the role of the overall environment in building capacity. For example, over the past ten years, UK-DFID has funded four research programs<sup>4</sup> on governance, which have generated extensive research findings on a range of governance issues. The key message highlighted by this research is that politics is central to shaping development outcomes and building effective states, i.e. legitimate, capable, accountable and responsive states (DFID, 2010).

In low-income countries, the failure to catch up with developed economies have been linked to concerns about the political and institutional foundations on which societies are built and on the economic policy choices that emerge. In the African context, institutional failures have been linked to traditions that embed such failures in systems of personal and group rule (Adam and Dercon, 2010). The heavy use of patronage and the emasculation of competing centers of political power appear as “rational” strategies for African leaders, especially in the context of weak political legitimacy and tenuous bureaucratic control (Bates, 1981, 1986; Sandbrook, 1985).

Therefore, a better understanding of the political economy context of reforms has been recognized as crucial for supporting the design and implementation of more effective and feasible policies and strategies, as this results in more realistic expectations of what can be achieved, over what time period, and sheds light on the risks involved given the prevailing interests of different groups in the society. Moreover, CPs increasingly recognize that successful development requires reforms to improve overall governance (both political systems and public institutions) in order to fight corruption and deliver more effective policies and services (DFID, 2001). Institutional reforms, in particular those needed to combat corruption, often generate considerable political opposition as they reduce opportunities for vested interests to benefit financially (Campos and Syquia, 2006). These vested interests of groups involved in the policy reform process are likely to influence the pace and direction of

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<sup>4</sup> The Centre for Future States and the Citizenship, Accountability and Participation Programmes (Institute of Development Studies, Sussex); the Crisis States Research Centre (London School of Economics); and the Centre for Research on Inequality and Ethnicity (CRISE, Oxford University).

reforms; depending upon their power base, they might even be successful in completely stopping the implementation of desirable reforms. In this context, economic policymaking appears as an endogenous outcome of the political process (Murshed, 2002). Reforms that are only partially implemented, or when implementation is accompanied by policies that negate the effects of the reforms, are unlikely to contribute to achieving sustainable economic growth or reducing poverty. Such reforms present a challenge that can be better approached by using PE analysis.

For World Bank related work, whether dealing with national level policies or sectoral programs or even at an individual project level, Fritz, Kaiser and Levy (2009) argue that that PE analysis is especially necessary if weak governance is an issue. In this context, PE analysis can either be a national level diagnostic that results in a risk assessment or a detailed description of political economy drivers and risks of capture at the sector level.

Fritz, Kaiser and Levy (2009) identify several situations where carrying out governance and political economy analysis (GPE) is relevant for a better understanding of country-level dynamics. First, such analysis can be useful during the preparation of a Country Assistance Strategy (CAS), Country Partnership Strategy (CPS), or an Interim Strategy Note (ISN), particularly when there is a sense that past country programs and policy dialogue have not produced expected development outcomes. Second, these studies help better understand the context when significant changes have taken place in the country, such as changes in government, or the emergence of a natural resource industry, etc. Third, when there are important risks regarding governance, such as risks of state capture, fragility or coup d'état, which can lead to a stop of donors' programs in the country. Finally, PE studies are generally useful since they benefit the various teams working on a country by facilitating a quicker and better understanding of the country context.

Fritz, Kaiser and Levy (2009) also talk about when PE analysis might be relevant at the sector level. First, these studies can provide useful context while supporting sectoral reforms that are likely to be difficult to implement either because of their distributional impact, their institutional complexity, and/or the structure of incentives and constraints. Second, when policy or institutional changes in a sector have been on the agenda for a long time without ever materializing or when previous improvements in sector policies or outcomes have been reversed. Third, when governments lack or have limited ability to manage institutional change and various stakeholders' interests are likely to leave the reforms unaddressed, blocked or mismanaged.

While sectoral analysis can draw upon country level studies, another approach that might be relevant and is gaining increasing traction is the *value chain approach*. By looking at each component of

the chain (the sequence of activities through which a sector produces outputs) this approach allows for the identification of vulnerabilities at different points along the chain, making it feasible to propose reforms in areas they might have the greatest impact (Campos and Pradhan, 2007).

### **3. The Zambia case study**

Motivated largely by the mixed performance in implementing policy reforms in a variety of country settings and across sectors, development strategists have started to focus increasingly on governance and political economy drivers and their influence on the decision-making process and the structure of incentives affecting the behavior of the political leadership and the civil service (Duncan, Macmillan, and Simutanyi, 2003). Zambia is a good example to explore how PE analysis is being used to inform policy dialogue, since several studies have been conducted in recent years by the World Bank, either at the country level or at the sector level in sectors such as mining, land, energy, telecommunications, water, or agro-business and tourism.

These studies, commissioned and led by the Country Management Unit (CMU), were launched with the intent to understand better how decisions are made at the national and sector level so that World Bank interventions (lending operations or policy recommendations) are grounded in local reality and are implementable. At no point in time was there intent to interfere in local political processes. The country level political economy diagnostic was initiated to help inform the country team at the initiation of the preparation of a new World Bank Country Assistance Strategy (CAS) in 2008. The objective of the country-level PE diagnostic was to better understand the reasons underlying the significant gap between the government's stated intentions to implement policy reforms in areas such as decentralization, energy, public sector reform, and actual implementation on the ground.

The country-level diagnostic (Taylor and Simutanyi, 2007; Levy and Palale, 2008) emphasized the highly centralized system of formal authority in Zambia together with a culture of weak accountability. It noted that since decision-making is very centralized and top down, civil society groups have difficulty in influencing the decision making process due to a lack of access and weak internal organization. This results in an environment that is prone to discretionary policy measures being implemented and poor efficiency of public spending.

The country level diagnostic was subsequently followed through by a series of sector level diagnostics, in sectors where the pace of policy reforms had been slower than desirable and where policies were adversely impacting the government's ability to accelerate growth and reduce poverty.

The studies were again commissioned by the CMU, in the sectors mentioned above. The approach taken was to twin an international consultant that brought international PE expertise together with a local consultant that had local and sector specific knowledge to conduct the diagnostic. Cooperation of sector staff in this process was ad hoc, with some sector teams participating actively in the diagnosis, for example in the tourism sector, but sometimes with no initial engagement at all. The quality of the PE studies was also varied; some lacked analytical insights, being excessively descriptive and weak in terms of policy recommendations. A brief overview of these studies is presented below.

The study on the mining sector by Bigsten, Mulenga, and Olsson (2010) focuses on taxation issues and attempts to understand how the mining sector can contribute more to economic development in Zambia. Many Zambian citizens rightly feel that this sector does not contribute adequately to national development as much of the resources are externalized. The study provides an overview of the mining sector, analyzes the agents operating in the sector and their strategies, discusses taxation issues and finally advances several policy recommendations for the World Bank and other development partners. The authors point out that the current tax regime<sup>5</sup> should be supported, since it appears well balanced as it includes both a tax on profits, which is variable, and a tax on revenues, including a royalty payment. They are confident that this should bring substantial revenues to the government in the years ahead. Hence, they argue that the key issue is the implementation of the tax regime rather than the introduction of additional taxes like the “windfall profits tax”. They recommend that the Bank should emphasize more clearly that long-run development based on mineral rents can only be achieved through efficient collection of taxes by the government; such a position might need to be reviewed if the implementation of the current tax regime does not result in a significant increase in mining tax revenues over the next few years. The authors also suggest that a more active role for ZCCM-IH (Zambia Consolidated Copper Mines)<sup>6</sup> on the boards of the mining companies should be encouraged; and advocate independent audits of the mining companies if mining companies do not declare profits in an accurate and transparent manner. Moreover, they recommend that the full implementation of the EITI should be supported by donors. Finally, they suggest that the listing of mining companies on the Lusaka Stock Exchange would allow more easily for participation by Zambia’s citizenry and contribute to the growth of the stock market.

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<sup>5</sup> A 10-year stability tax regime was announced in December 2010 (with 30% corporate tax, 15% variable profit tax, and 3% royalty).

<sup>6</sup> ZCCM-IH is owned by the government (87.6 percent), and by the Zambian public (12.4 percent). It is a holding company that owns shares in all the mining firms operating in Zambia.

The study on the land sector by Taylor (2007), investigates the political economy of land administration while focusing on the governance challenges faced by the sector. The paper provides an overview of the recent history of land administration, discusses the principal elements of the proposed National Land Policy (NLP) while emphasizing the main governance challenges (in particular weak institutions), identifies key stakeholders, and highlights weak implementation capacity (technological limitations, bureaucratic overlap, personnel constraints such as frequent turnover), and the political disincentives for reform. The study concludes that control over land administration offers opportunities for vested interests to access discretionary resources. Furthermore, opportunities for personal rather than national interests are numerous and are the result of weak institutions governing land administration. The study provides recommendations for possible strategies designed to overcome the constraints and reform land administration. The author recommends that instead of eradicating the institution of chieftaincy, it should be rehabilitated. The author also argues that the deepening of the democratization process will ensure greater consultation and lead ultimately to more favorable agreements between communities and investors. At the same time, providing civic education programs should empower subjects and allow them to be better informed about their role and responsibilities with regard to land. Furthermore, the author points out that the transparency of the foreign investment regime as it applies to the allocation of land should be enhanced. While free access to land is currently given to foreign investors, transparent payments that benefit local communities should be required. Finally, Taylor suggests that the institutions in charge of land management should be strengthened by providing technological and human resources to the Ministry of Lands (MoL) and reforming the Land Development Fund (LDF) to enhance its collection capacity and revenues oversight.

The study on the PE of infrastructure reforms by Levy (2007) investigates the reasons for the divergent dynamics of reforms in the infrastructure sectors – electricity, telecommunications, and water. Three reasons are identified: (i) the propensity for discretionary and centralized control over resources; (ii) the bias towards the status quo; and (iii) the role of private interests. The politics of discretionary control over resources and their allocation appears to be a dominant obstacle to reforms in all infrastructure sectors, in particular in the electricity and telecommunications sectors. This is because these sectors offer a multitude of discretionary benefits, such as access to revenue, access to procurement contracts and access to jobs. Private interests impact sectoral decision-making through: (i) “state capture”, e.g. privatization of copper mines over the past decade; and (ii) elite economic nationalism. The study makes several recommendations to overcome the political constraints to institutional reforms. In the water sector, donor support to strengthen the rule-bound institutional

framework is important to counter the pressures for greater discretion. In the electricity sector, making ZESCO an active partner in the reform of the sector would be critical for future progress. Partnerships with the private sector and other stakeholders could also be useful in reducing resistance to reforms – for example, highlighting the need to increase tariffs to improve the investment environment in the sector and to mobilize the resources necessary to invest in augmenting generating capacity would be supported by the large proportion of the population that presently has no access to electricity. In the telecommunications sector, highlighting the very high cost of telecommunications and engaging the private sector and civil society in the reform process might provide the signals that ZAMTEL needs to press ahead with the reform agenda. In both the electricity and telecommunications sectors, the studies carried out identified that given the PE constraints, the reforms should focus on specific interventions where developmental goals are aligned with the interests of influential local actors.

On the challenges of implementing decentralization, the first study (Simutanyi, 2007) revealed that previous attempts to decentralization (in 1980 and 1999) failed mainly because informal power structures pervaded over legal rules and lead to capture, centralized power and lack of local participation in decision-making. Following the approval of the Decentralization Implementation Plan (DIP) in 2009<sup>7</sup> a second study was conducted in 2010. This study attempted to assess the commitment of the Zambian government to implement the DIP, given the strong incentives faced by politicians to preserve their control and authority over local administration. The study suggests that the Bank and other donors should promote policy dialogue and demonstrate the advantages of decentralization in the provision of services in order to sensitize the public and the officials in the ministries that are targeted for devolution. The study advises that the DIP should first be implemented in a few local authorities on a pilot basis. Support should be provided for capacity building initiatives to government agencies like the Decentralization Secretariat, the Ministry of Local Government and Housing, the Management Services Department at Cabinet Office and Provincial Administration. Advocacy groups could also be supported in lobbying government, both at central and local levels, to implement the DIP by supporting activities that involve citizen participation in devolution activities carried out by the Decentralization Secretariat. To overcome financial constraints, financial support could be provided to the proposed decentralized local government; measures could also be designed to raise revenues for the new structures.

The review of oversight institutions by Mwangala (2010) attempts to understand why, despite various legal and regulatory instruments and systems of checks and balances, oversight institutions have not been very successful in achieving their mandate of ensuring effective utilization of public resources.

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<sup>7</sup> The DIP was formulated in 2005 and Cabinet approval took four years.

Several factors are identified by the study, including: (i) poor management; (ii) lack of resources (both human and financial); (iii) lack of staff expertise to implement the mandates; and (iv) the weak sanctioning environment. To address these weaknesses, several recommendations are put forward in the study. With regards to donor support, the study points out that they could help the government streamline procedures and improve the country's administrative capacity to account for public funds (e.g. computerization of the financial management systems). Donors might also work together with civil society and the private sector to sensitize them about the negative impact of corruption on the development of the country and promote active engagement of all stakeholders in monitoring government activities and supporting changes in practices.

A PE study was also carried out to understand how political factors may influence economic diversification in Zambia, especially in tourism, livestock development and metal fabrication (Taylor, 2010). The tourism sector appears to suffer from neglect, notwithstanding statements of it being a priority sector, and is characterized by weak capacity and mismanagement of resources, which have undermined the sectors capacity to grow and produce jobs. Although Tourism has been promoted as the third pillar of the Zambian economy since the 1970s, there has been relatively little investment in the sector. In the livestock sector, the deficiencies in veterinary service, which has necessitated bans on the movement of cattle, may have exaggerated the presence of disease and favored the interests of the dominant players in this sector. In this context, the study recommends using a more grassroots approach, which might be more feasible politically because it will not be seen as benefiting or empowering political rivals, and focusing on interventions in rural areas.

#### **4. How useful are PE studies for tasks managers?**

Based on these studies, findings and recommendations, several task team leaders (TTLs)<sup>8</sup> were interviewed to assess how PE analysis had or had not changed the way they support the design and implementation of projects and the nature of policy dialogue in Zambia in their respective areas. The discussions were valuable for assessing the utility of the PE studies and drawing some lessons from the Zambian case study.

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<sup>8</sup> Infrastructure (electricity, water, and telecommunications), agriculture, private sector, procurement and financial management were included.

All the surveyed participants agreed on the important role of political economy drivers in decision-making in different sectors and in shaping the way that policies are implemented, and ultimately in influencing the implementation of projects. It was acknowledged that a good understanding of the political context is likely to enhance the effectiveness of project implementation and the quality of policy dialogue. Overall, PE studies are seen as useful by providing insight into the country and sector context and facilitating a better and quicker understanding of political realities and thus possibly adapting policy dialogue to local conditions.

However, TTLs pointed out that the usefulness of political economy analysis also depends on what level they are carried out, whether it is at a country or sector level. The studies conducted at a country-level provide a broad assessment of the country's environment while sector studies deal with the dynamics of a particular sector and provide deeper and broader understanding of specific issues. For team members working on projects in the field, sector-level analysis appears to be more useful. The usefulness depends on the knowledge that TTLs and teams already have about the sector in which they are operating and on their involvement in carrying out the analysis.

Sectoral PE studies may be valuable specifically in sectors where donors have long focused on supporting reforms and where the implementation of reforms has lagged behind or has never materialized. In Zambia, the electricity, telecommunications and land sectors are examples where historically there was lack of progress in implementing reforms. Therefore, it was felt that a good understanding of the political economy drivers in these sectors could enable staff to identify feasible reform options and better target interventions. The telecommunications and energy sectors are good examples of how the use of PE studies has changed the manner in which policy dialogue is conducted, contributing to progress in the sector.

The World Bank had been active in the telecommunications sector for several years, urging policy makers to improve the efficiency of ZAMTEL (until recently the government owned telecommunications company), address issues relating to its monopoly over the international gateway and proposing privatization as a solution. In particular, Zamtel's monopoly over the international gateways had translated into high prices for international telephone calls and poor quality of service. After years of limited results, and using the results of the political economy diagnostic, the focus of policy dialogue was changed from improving efficiency to how high telecommunication costs were not only adversely impacting Zambia's competitiveness by contributing to the high cost of doing business but were also contributing to high telecommunication costs for the individual citizens, many of whom now enjoyed access to mobile telephone services. The high cost of doing business was adversely

impacting the ability of the private sector to generate growth and employment. This subtle change in message was better appreciated by both government and the private sector, resulting in a general consensus that the telecommunications sector needed to be reformed. As a result, the government took the decision to privatize ZAMTEL and liberalize the international gateways, resulting in a significant decline in the cost of telecommunications.

The energy sector is similarly a good example of how PE analysis has been used at the sector level to change policy dialogue and bring changes in the sector. During the early 1980s, Zambia enjoyed 100% surplus electricity capacity, mainly due to lower than expected growth of the mining sector. However, the increased demand for electricity from the expanding copper mining sector in recent years has transformed the surplus into a deficit. This increased demand has been coupled with increasing domestic demands for electricity in urban areas. Zambians have long enjoyed the lowest tariffs in sub-Saharan Africa – less than 2 US cents per kwh till 2008 and significantly below the cost of new generation, estimated at about 8 cents/kwh. This resulted in the only 22% of the population having access to electricity, with only about 3% in rural areas.

Several studies have historically been carried out on the institutional reforms needed in the energy sector to improve performance, attract private sector investment and address the challenges of rural electrification. A commercialization program was agreed between ZESCO and the government within the framework of the HIPC and MDRI initiatives backed by cancellation of US\$2.7 billion in government debt. The objective and spirit of this commercialization plan was “enforcement of improved performance of ZESCO via its management, board and the Energy Regulation Board (ERB)” and included a list of factors needed for sustained good performance, one of which was autonomy of the management. To help achieve this, the government committed to ensuring independence of the ZESCO Board and ERB, as well as freedom of both from political interference. A Cost of Service Study supported by the Bank in 2007 identified a number of performance related issues within ZESCO and a series of performance benchmarks were agreed between the ERB and Zesco. These were intended to address public concerns about performance related services and provided a multiyear incentive tariff framework based on the use of self-enforcing incentives. Implementation of the recommendations of these studies was historically less than satisfactory, as the recommendations often ignored the political realities confronting the sector. In particular, it was felt that any tariff increase in the sector would directly impact the relatively prosperous urban population that wielded considerable political influence.

Informed by a deeper analysis of the political economy, the Bank dialogue shifted significantly to accommodate a more balanced and nuanced approach between the push for efficiency and the need to

provide increased access to electricity services. Instead of continuing to push for increased tariffs as an end in and of itself, the focus shifted to encompass a broader, long-term objective of improving access to electricity services for a large part of the population, especially the rural population. This enabled the Bank to respond to the government's demonstrable need to increase access to electricity and support the need for accelerated economic growth and poverty reduction and, in the process, engage the government in a longer term dialogue on politically sensitive issues relating to increases in electricity tariffs and institutional reforms. This approach enabled the government to obtain the political support needed for increasing tariffs significantly: a series of major tariff increases were implemented in 2009 and 2010 (27% in January 2009, 35% in August 2009 and 25.6% in August 2010). These tariff increases have allowed Zesco to improve its financial performance, put the company on the path to financial sustainability, while at the same time increasing the number of people connected to the electricity grid. In FY06-FY08, Zesco reported an operating loss of Zambia, Kwacha (ZMK) 84 billion (US\$21 million). Losses after interest charges over the same period amounted to ZMK160 billion (US\$41 million), and negative net cash flows (after borrowings) reached ZMK39 billion (US\$10 million). Following the tariff increases ZESCO reported a net profit of ZMK354 billion (US\$70.1 million) on revenues of ZMK1,713 billion (US\$342.6 million). During the past three years, the energy sector has attracted upwards of US\$2 billion in foreign direct investment and electricity generated in the country is projected to double over the next five years, as a result.

## **5. Challenges and the way forward**

PE studies face several important challenges. The first has to do with collaborating with the government on such studies, informing them about the results of such studies and, ideally, widely disseminating the conclusions of the studies. This is particularly challenging as governments are generally reluctant for studies of this nature to be carried out, especially since they shed light on existing power structures and why certain policy decision that might be in the best interest of the population are not being made. There is also considerable sensitivity associated with what such studies might uncover, especially since some studies deal with sensitive governance issues. This sensitivity on the part of the government presents a real dilemma for staff and management as they would ideally like government to be involved in such exercises. There is thus need to have very strong support from senior management to carry out such analysis, while at the same time educating senior political leadership that the objective

of such analysis is not to interfere in internal political processes but to better understand the political environment within which economic decisions are being made.

Second, there are several obstacles associated with making PE analysis “actionable”. While many PE studies do a reasonably good job of describing the operating environment and identifying winners and losers, most of them fail to meet the “so what” test by making practical recommendations on a way forward. This is especially true when such studies focus on complex institutional and policy issues that might necessitate a long-term engagement, whereas the structure of incentives that staff (both within the Bank and the government) face is much shorter-term in nature.

Even when staff is motivated to undertake behavioral change and take into account PE factors in designing operations or in their dialogue with the government, it is sometimes difficult for them to get a broader buy-in either from the rest of their sector colleagues or from their management. The lack of support can be explained by the fact that the point of view of the team members that operate on the ground may not be shared by the management in headquarters or regional offices, either because they do not fully appreciate the reality on the ground or they do not see the payoffs from the change in approach. This can also result from poor communication between the staff working in the field and in headquarters.

When teams on the ground are expected to deliver tasks and results in a fairly short period of time, there is a tendency to focus only on “manageable” issues. Moreover, the sometimes long time lapse between the moment when a change process is initiated and the moment when results are realized can discourage teams to undertake these changes. PE studies can sometimes go against management requests or donor expectations and make it more difficult to make them actionable.

Furthermore, for Task Team Leaders focused on processing lending activities that often involve large sums of money and are fraught with implementation risks, a PE assessment of issues can prove to be a distraction as some TTLs often tend to focus narrowly on the project that they are working on, with scant attention being paid to the broader sectoral results that need to be achieved. In this case it is difficult for TTLs to apply the recommendations from the PE studies and address deeper systemic issues as their options are limited.

Lessons from the Zambia case demonstrate that while country level PE analysis is useful as background information, PE studies should probably focus more at the sector-level as the recommendations from these studies tend to be more actionable. Sector operations are at the core of lending activities and policy dialogue and in order for these interventions to deliver on an effective basis understanding the political constraints to operating in a particular sector is important. Adopting a

participatory approach based on mutual trust and valuing local expertise is important in undertaking such analysis.

As this approach becomes more widespread, PE analysis should probably be integrated in standard documents, such as sector studies and public expenditure reviews, which are already being used to support existing operational activities. This would allow updating them on a regular basis, which would be particularly useful when dealing with long-term operations. It would also help target a wider audience, which is important particularly when outputs are not disseminated and team members are not necessarily aware of existing PE studies.

Finally, the approach and methodology of how PE studies are carried out is important. Sector task teams have to be involved at all the stages of this analysis. This is extremely important for buy-in and subsequent follow through. Without this, the usefulness of a political economy analysis is likely to be low.

Overall, even though PE studies are useful, PE analysis should not be regarded as a “magic bullet” that will unleash a process of reform through some miraculous process. Besides providing knowledge about the political realities on the ground, PE analysis should also come up with practical recommendations for approaching change, which ultimately would result in adjustments in the design and implementation of projects. For this reason, task teams should invest time up-front in developing a very clear idea about what questions they would like the political economy analysis to answer and then ensure that the analysis is carried out in a manner that is participatory and inclusive.

While it might become feasible to publish the findings of such analysis at some point in the future, given the sensitivities associated with such analysis, a published report should not be the end goal for such analytical work. Rather, the goal should be to inform staff and management on how sensitive policy and implementation issues should be approached, given the political environment, with the clear objective to maximize development impact.

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