Bringing Political Economy Analysis Back: Findings from a World Bank study on 'Enhancing the Capabilities of Central Finance Agencies'

By Björn Dressel
11 January 2012

Over the last three years, I have been involved in efforts to operationalize political economy analysis within the World Bank. A direct outcome of this work has been an explorative study on how to strengthen Central Finance Agencies in developing countries (the full report can be viewed here [pdf]). Advancing the principle argument that recent efforts in 'capacity building' need to be replaced with a greater focus on enhancing 'capabilities', the study combined a set of in depth case studies of CFA's in low income countries (six in the sub Saharan Africa; two in East Asia Pacific, and two in Latin America) with the creation of a database (of currently 55 countries) containing information on the organisational structures, staffing, and ICT systems of CFA across a broad spectrum of countries.

While the full findings of the study are captured elsewhere (see Policy Brief No. 3; World Bank 2011), a few points might be highlighted here:

- As far as the **CFA data is concerned**, the database has highlighted a number of interesting patterns, including:
    - the wide variation in practices from country to country, including: functional fragmentation; staffing numbers; gender and ICT use;
    - the tendency of policy functions to remain within the Ministry of Finance, while operational functions are often devolved to subordinate agencies and/or line ministries;
    - a broader pattern, whereby in middle income countries fragmentation

    - tends to decrease as finance functions are consolidated within central Ministries of Finance, but increases as countries develop further;
    - the trend that resource-rich countries are *more* prone to fragmentation while fragile states are often *less* fragmented.

- In terms of some of the **qualitative findings** from CFAs in selected countries, the study also highlighted several distinct political economy aspects that interfere with the capabilities of CFAs, including:
    - **The use (and misuse) of presidential power** (i.e. considerable interference of the executive in budget planning and execution, as well as distribution of material benefits (i.e. rents) through informal channels outside the control of the MOF);
    - **Fragmenting the CFAs for political gain** (i.e.the deliberate fragmentation of CFA functions as part of a 'divide and rule' strategy aimed at serving political purposes, such as distribution of rents, accommodate a transitional compact etc.);
    - **Internal Constraints of CFAs** (i.e. erosion of bureaucratic capacity due to the persistence of informal structures that interfere with recruitment and performance systems);
    - **Lack of Donor Coordination of CFA reforms** (i.e. dysfunctionalities brought in by lack of donor coordination/bidding up and slicing of programs).

While reflecting the rather complex picture that emerged from the case studies, these points provide interesting connections with a number of recent studies. These studies have sought to expand our understanding from a broader theoretical and empirical perspective of the weaknesses in efforts to reform existing Public Financial Management systems, though clearly more work is required here.

Operational Implications

As indicated by the findings of these studies, political economy analysis is highly relevant to the design and implementation of new initiatives to strengthen CFAs and their capabilities. A broader political economy analysis not only provides an understanding of existing vulnerabilities and bottlenecks in CFA operations, but also clarifies the prioritisation and sequencing of CFA and PFM reform, and fosters a greater CFA role in country-wide development trajectories. That said, such analysis requires time, resources and new modes of engagement for CFA staff and donors.

Two distinct implications might be drawn for these respective groups. For instance, **CFA staff should** consider:

- Using political economy analysis to better understand the drivers and dynamics of the CFA/PFM reform process. More specifically: where there is a dynamic reform environment, focus on what can be done within the limits of the PE constraints (rather than attempting reforms to please the donor community); where there is a stagnant reform environment, build partnerships with groups that can exert effective pressure on governments to reform – whether civil society, reform-oriented political actors, or external oversight agencies, such as supreme audit institutions;
- Focus on the mobilisation of internal 'capabilities' before seeking donor support in capacity building. This would include efforts to optimize internal workflow and resource use; strengthen routes of accountability and transparency mechanism; emphasise leadership from within; clarify and consolidate engagement with donors;
- Finally, have realistic expectations. CFA transformation takes time; is often incremental, and is hardly a linear process. Much will depend on the ability to combine technical excellence with the ability to build and sustain reform coalitions.

Likewise **external actors** (i.e. donors, international financial institutions) should use political economy analysis as a filter before launching lending projects, and during preparation and implementation. A political economy approach would specifically urge external actors to:

- Invest in the development of a continuing dialogue with political leaders and other stakeholders who can be instrumental in driving the reform effort;
- Refocus CFA reform strategies on "best fit" solutions rather than "best practice" models;
- Provide more intensive advice to clients on change management practices, and efficient project management; and
- Review the human resource management policies (including policies on rotation) in the in respective agencies to develop deep country and stakeholder knowledge of political economy aspects of reform.

In sum, political economy analysis means a very different mode of operation but one that is critical to enhancing the capabilities of CFAs.

Moving Forward: Open Questions & Debate

Clearly, these are only the initial contours of a more distinct political economy approach to strengthening the capabilities of CFAs. More thinking is s required in terms of defining 'capabilities'; understanding levels and dynamics of fragmentation; and linking the data more clearly to existing PEFA indicators in order to start a more informed debate about how to enhance CFA capabilities and chart a reform trajectory that can claim ownership and wider stakeholder support.

These open questions aside, there are few doubts that political economy analysis along the line described here can provide operationally useful insights for CFA strengthening efforts. Indeed, in providing a distinct toolkit of analysis and a critical focus on CFA capabilities, such an approach offers a much needed, new avenue for Public Financial Management reform efforts and CFA strengthening – one that deserves greater attention by scholars and practitioners alike.

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