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Political Science Tools for Assessing Feasibility and Sustainability of Reforms

A research paper prepared for

the **Independent Evaluation Office** of
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by

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The views expressed in this paper are those of the authors and do not necessarily represent those of the IEO

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1 Summary

We were asked by the Independent Evaluation Office to outline political science methods for assessing the chances of reform implementation in an ex-ante fashion. We agreed to illustrate how these tools ‘work’ with the help of Pakistan case material. The recent literature on IMF-sponsored reforms points out that successful implementation not only depends on the nature and severity of the economic crisis and on the design of the reforms, but very much also on the political economy of reform politics. We have identified the following main political factors:

- the power of sections of the economy and polity that will lose from effective implementation;
- the political independence of reform-minded branches of government vis-à-vis politicians that depend on popular support;
- the institutional capacity to implement reform;
- a high degree of acceptance of the reforms among the major stakeholders (the ‘ownership’ factor).

We have designed three tools that help forecasting how these factors will develop in the future. Each tool comprises three dimensions of analysis:

- how these factors will develop after signing an agreement, given visible trends in the immediate past (trend extrapolation);
- how these factors would be influenced by an effective reform implementation (impact analysis);
- how other political framework conditions will evolve and what impact this may have for the reform prospects (scenario building).

The three tools belong to different types of forecasting techniques and thus illustrate the wide range methods available. They are also addressing different combinations of the four political factors. The three tools are summarized below.

Tool 1: Stakeholder analysis

This tool forecasts how the political struggle over reform will end by assessing the relative power and influence of the major stakeholders and by estimating how this balance of power will develop in the future. The three dimensions of analysis could look as follows:

Trend extrapolation involves a close inspection of: 1) the reform steps undertaken during and before the negotiation period; 2) the negotiation style of the government (inclusiveness and transparency); 3) the degree of ownership of the reform idea among the major stakeholders.

Impact analysis estimates how the power base of the actual government (factor 1) and the relation between civil servants and elected politicians (factor 2) will change due to effective implementation of the reforms and how this in turn influences the probability of continued implementation in the mid-term.

Scenario building integrates other independent trends (e.g. declining power base of a party in power) as well as unforeseeable events (such as a foreign policy crisis) into the assessment exercise. The scenarios may be ranked by probability.

Tool 2: Institutional analysis

This tool would comprise three different elements of analysis. *Institutional mapping* describes the network of institutions (both governmental and non-governmental and at different levels) involved in decision making and reform implementation. The *veto power analysis* then determines the relative power and independence of those branches of the bureaucracy that are able and determined to implement reforms. The *capacity assessment* would look at levels of professionalism, recruitment procedures, educational background and motivation in those branches of government.

Trend extrapolation would take into account actual trends of institutional change in determining the chances of reform implementation. Under the *impact analysis*, the institutional consequences of the reform programme itself and their impact on capacity and willingness to reform can be assessed. The *scenario technique* could be used to produce different scenarios of mid-term institutional change and see how they influence the prospects for economic reform.

Tool 3: Delphi study

Delphi studies belong to the pool of expert opinion tools. It consists of at least three rounds of surveys administered by a questionnaire. The experts may adjust their responses in the second and subsequent rounds after having been informed about the mean answers of the previous round. We suggest to ask at least 15 experts from think tanks, advisory bodies, the media, universities etc. to assess a) the prospects for the reforms being implemented given current political *trends*; b) the political *impact* of the reforms and how it may affect the possibility of sustained reform; and c) the probability of various mid-term political *scenarios* and the chances for sustaining reform under these scenarios.

One of the comparative advantages of Delphi studies is that the results are not influenced by opinion leader phenomena. They can be used to quickly assess the constellations of opinions with regard to specific policy options and the probabilities associated with different future developments.

In the concluding section we recommend

- to apply the maximum possible number of tools in order to arrive at a solid assessment of the political feasibility of a programme from different perspectives.
- to apply the ‘triangulation of methods’ approach whenever it is necessary to outbalance different results produced by the different tools. This means to reinterpret results and search for new evidence until more coherent overall conclusions can be reached;
- to develop a multi-tier assessment system, where the basic tier, streamlined to all IMF-supported programmes, would consist in the trend extrapolation and impact assessment components of stakeholder analysis; institutional analysis would represent a second tier, to be applied to cases where doubts about implementation prospects are higher; a Delphi study, including scenario building, represents the most complex exercise reserved for the most contested cases;
- to rely on careful judgement when deciding to more systematically include political factors, taking into account the risks of becoming involved in political and institutional engineering in sovereign nation states.

2 General background

The debate on the economic adjustment programmes that are conducted under the guidance and with the financial support of the IMF has many faces. One of the most important aspects is the discussion about the consequences and the reasons for reform failure. It has been observed repeatedly that the programmes often are not effectively implemented and that many countries have become dependent on continued IMF borrowing, a role for which it was not originally designed. It is obvious that political factors are important for explaining reform failure (see the literature cited in Boughton and Mourmouras 2002: 16f.). While the IMF decision making procedure explicitly takes economic and financial factors into account and assesses systematically if a reform programme is economically sound and feasible, political factors have not usually been taken into account in such an explicit and systematic way as it is proposed here. We guess that this may be due to the fact that politics is considered an internal matter of the sovereign member states in which the Fund officially has no mandate to intervene.

Since lending will depend on prospects of effective reform implementation, the IMF needs to consider how far to take political factors that may or may not enhance the prospects for effective reform explicitly into account when making decisions. This research note aims at outlining some of the possibilities for assessing these political factors in a systematic and explicit way. We thus abstract from the *content* of the reform packages. We neither discuss if they are desirable and effective from a social point of view nor whose political interests they serve nor how the burdens of adjustment are distributed among the population nor the political factors that may influence IMF-lending to particular countries at particular moments. In other words, the tools we offer aim at forecasting political feasibility, not at evaluating programmes from a political point of view.

There is a vast literature on forecasting in the social sciences and several tools have been developed over the past decades. Most of these instruments appeared either in the context of the Cold War (such as the various risk assessment techniques for MNCs or the Delphi survey), or the Oil price shock of the early seventies (such as the scenario technique of Shell) or the revolution generated by IT technologies (this is the case for various forecasting techniques). Forecasting has become a business of its own and several firms specialise in technology forecasting, in political risk analysis, in scenario building etc.

The experiences of the last decades concur in three major points that are of relevance for the present study (cf. Skumanich and Silbernagel 1997): a) while accurate prediction may be possible for some aspects of technological and economic development, complexity and contingency make prediction of broader political and social developments more difficult. The more technical, mathematical extrapolation tools will not be transferable to the analysis of political futures; b) a combination of tools is most adequate in order to overcome the deficits of a single approach and maximise the credibility of the forecasting exercise; c) all serious forecasting techniques are based, on the one hand, on imagining possible futures and surprise moments, and on the other hand on a thorough analysis of the past — the standard temporal domain of the sciences.

3 Political factors influencing success and failure of reform: Lessons from past experience

In this section we review briefly some of the major research findings on the political determinants of past success and failure of IMF sponsored economic reforms. We identify four major factors:

- the political *power basis* of an actual government with respect to the constellation of losers and winners of a future reform;
- the *independence* of reform oriented civil servants vis-à-vis the political system;
- the degree of *capacity* of the relevant government branches to manage the reform process successfully;
- the *ownership* of the reform by a government and other major stakeholders.

3.1 Basic aspects of the political economy of reform

The findings reflects the importance that nowadays political and institutional variables are given both in development research and policy (see for example World Bank 2002). The unmet expectations of several development decades have led to focus on the political and institutional environment that apparently structures economic incentives in ways that are undesirable for self-sustaining growth and development. According to the mainstream of development research, the general problem may be characterised as change from a situation where economic policy is basically domestic oriented and serves other political ends, i.e. securing political support of powerful groups when allocating credit, determining wages and prices, subsidising certain sectors, and selectively erecting barriers to trade and foreign investment (see Krueger 1974, Grossman and Helpman 2001), to one where market forces determine allocation decisions. Reforming the policy style in direction of less intervention, more openness to global markets and less politicisation entails political costs for the reformers.

Successful reform therefore hinges on the political economy of policymaking. It is not just a matter of fixing a given set of economic policies to achieve short-term stabilisation, but to manage a 'dual transition' where economic reform goes hand in hand with structural change in the political regime (Nelson 1994). Supporting such dual transitions are the object of what has been termed 'second generation' reforms in international financial and development cooperation.

The literature describes such political regime changes as answers to crises created over time by the status-quo, both in terms of economics and politics.¹ An adequate understanding of the dynamics of regime change has to start from the insight that the costs of the crisis are unevenly distributed among the population and therefore also the willingness to support and endorse a reform path. Reforms represent a threat to powerfully-placed individuals and groups who benefit from the rent-seeking arrangements of the status quo. The model that illustrates the resulting struggles over change in the perhaps most adequate way is the model of partisan politics, where groups try to maximize their expected gains in the bargains over change (Bates 1994; Husain 1999). It thus depends on the outcome of these struggles if

¹ Haggard and Kaufman 1992b; Krueger 1993; Snider 1996; Sturzenegger and Tommasi 1998; Williamson 1994.

reforms can be successfully implemented and if the reform process is sustained or aborted after the initial steps.

3.2 Four main political factors

What determines the outcome of these political struggles over economic reform? Non-political factors, such as timing and speed² of the reforms themselves or the severity of the financial crisis, will not be reviewed here. Instead, we concentrate on genuinely political factors and distinguish between four different elements of the political economy of reform that are often subsumed, in the literature, under one single 'political economy' variable or under the broad category of reform 'ownership' (such as used by Boughton and Mourmouras 2002). While these variables are certainly closely interrelated among themselves, they nevertheless vary independently of each other and thus deserve a separate treatment for the purposes of this paper.

1. The success of a reform project depends on the constellation of interests represented in the actual and possible future governments, particularly the balance of power between rent-seeking segments of the economy and society (potential losers) and potential winners from adjustment such as small traders and entrepreneurs, the informal sector or the rural population. The political influence of losers is the more important part of the equation, since they know immediately what they lose while the expected future gains are harder to discern concretely. In the heat of political struggle, the rent-seeking segments of the business community can wrest the maximum concessions for their political support of the actual government in times of trouble, thereby scuttling the effectiveness of reform (Bates 1994; Hellman and Kaufmann 2001; Havrylyshyn and Odling-Smee 2000). Thus, understanding the impact of reforms on powerful political actors that can influence government decisions is crucial for explaining success and failure of economic reforms (Rodrik 1996).

It is not only the structure of the ruling coalition of parties and their respective power basis that matters, but rather the more complex constellations of both formal and informal alliances between political forces that keep a government in power. Past experience shows that governments who built coalitions supportive of reform and nurtured the necessary support of those with an organizational advantage for scuttling reform, such as 'organized' labour and the state bureaucracy, were more successful than governments who relied on a narrower power basis (see the studies cited in Boughton and Mourmouras 2002: 14f.). On the flipside, successful leaders of reform have been able to make reforms credible enough to the private sector and foreign investors so as to make reforms payoff in the short-run for them.

The complexities of alliance politics make a fully fledged qualitative stakeholder analysis necessary in order to determine the possible impact that reform will have on the power

2 There are several explanations for the timing of reform. According to some, reform occurs simply when the marginal costs of maintaining the status quo policies outstrips benefits (Przeworski 1991). For more complicated dynamic models highlighting vicious cycles, see Alesina and Drazen (1991). However, as some have suggested, aid itself can hamper effective reform by simply removing the incentive for making a hard choice (Rodrik 1996). With regard to speed, some argue that a 'big bang' approach worked best so far, since those who represent the status quo (and thus will lose from reform) are weakest at the point of initiation (Haggard and Kaufman 1992b). A rapid and comprehensive change makes the reforms irreversible. Others challenge this view, arguing that according to past experience, consensus-building measures are better for long-run prospects and that a gradual approach is therefore recommendable, given that consensus building needs time. In addition, short-term pain may unseat incumbents quickly, leading to reversals of policy, while gradual reform is likelier to offer 'safety' to losers (Rodrik 1999). Still others maintain that this holds true only if losers are already politically organized, while when they are not a quick pace of reform may be more adequate (Boughton and Mourmouras 2002).

constellation and therefore on the likelihood of reform success. Econometric studies focusing on special interest groups' 'political contributions' (Adam and O'Connell 1999; Boughton and Mourmouras 2002) or game theoretic models of the interaction of different veto-players within government (Drazen 2001) certainly have a heuristic value and help to ask the right questions. However, they are perhaps not context sensitive enough and not empirically detailed enough for the kind of case-specific forecasting purposes we are concerned with in this paper.

2. Of crucial importance is not only the power basis of a government, but also the constellation *within* a government. The success of reforms may also depend on relations between technocratic, reform minded civil servants and politicians, specifically the degree of independence of civil servants and their ability to resist political pressure. The degree of insulation of reform oriented sections within a bureaucracy is what seems to matter—and not insulation of the *entire* government apparatus from the surrounding society, as has been the preoccupation of much of the previous literature (Haggard and Kaufman 1992b). During the eighties, insulation was thought by some authors to be fostered by authoritarian regimes. The uncertainties inherent in partisan, democratic policymaking was what made early observers advocate authoritarian paths to reform, even if only tacitly. Authoritarian regimes are not impervious to interest-group competition, however (Wintrobe 2000),³ such that we cannot deduce the degree of autonomy of key bureaucracies simply from the type of political regime.⁴

Rather, we have to undertake a full institutional analysis in order to determine the relative autonomy of reform minded sections of a bureaucracy. Some studies have shown quite convincingly that despite the wishes of presidents, technocrats in key ministries and bureaucracies were able to 'veto' reform given contrary interests. Managers of public enterprises gave wrong information or dragged their feet in the process. On the other hand, key agencies that oversaw reform programs gave information to pro-reform technocrats, who asked for new institutions such as oversight agencies to bypass anti-reformers, leading to successful interventions (Williams 2002). The institutional set-up responsible for implementation may thus be equally important for successful reform as the more visible power politics addressed under factor 1.

3. Another important factor is the capacity to implement complex reforms in a fast developing international and domestic environment. Not all institutions are capable of overcoming coordination failure and ensuring adequate information flows. Sometimes reform agencies are not staffed on a meritocratic basis. Often bureaucracies maximise rents rather than optimise performance and service delivery. It seems that institutionalised democratic processes are likelier in this regard to provide the 'checks and balances' against such behaviour and therefore to enhance capacity to steer a reform process skilfully (Snider 1996). Even in such environments, however, the technocratic capabilities of carrying out effective reform may be limited and further reduced by a general weakness of state authorities to have rules and laws observed. In other words, the success of reforms also depends on the degree to which meritocratic and professional norms, practices (including recruitment practices) and

³ The success of some reformers under authoritarian regimes, such as Korea, Taiwan, Chile, and Ghana, led to the belief that autocrats were necessary for creating the insulation for technocracies. Democracies were seen as weak and chaotic. The question of insulation, however, is a double-edged sword (Haggard and Kaufman 1992b).

⁴ This view is confirmed by the contradicting results of studies looking at the relation between successful structural reform and democracy. While Dollar and Svensson (2000) found that democracy and short tenures of governments is good for structural adjustment programs financed by the World Bank, Ivanova and others (2001) showed that democracy did not improve the chances of success of IMF supported reform programs.

institutional arrangements mitigate nepotistic and clientelistic norms and practices. Institutional analysis can reveal the balance between these two forces and therefore the capacity for reform implementation in a particular case.

4. Another crucial factor determining the short- and long-term success of reform is 'ownership' by a government and by other politically influential stakeholders (including major opposition forces). The degree of ownership is one certain predictor for commitment and therefore also for success of reforms (Haggard and Kaufman 1992a; Worldbank 1998, Worldbank 1999; Boughton and Mourmouras 2002).

Commitment and ownership are likely to be reflected in policy decisions that have already been taken prior to calls for external support (Kahler 1992). Secondly, ownership is also expressed by the way in which the reform project is communicated with the wider public. A consensually-based approach to economic readjustment increases information sharing and allows for trial and error process, building trust by allowing give-and-take. The result is a more sustainable reform process because coordination and two-way information flows allow reformers and key veto players to adjust strategies to the new political and economic environment. This is shown by the fact that newly-elected democratic governments reform more successfully than most other types, apparently because the broader public participation in the reform process creates a sense of shared ownership (Dollar and Svensson 2000) and gives rise to the broad political alliances mentioned under point 1 as one important factor explaining successful reform. A closely related aspect is how the reform is presented to the larger public. Portraying the reforms as a bitter pill prescribed by the malevolent international financial community is certainly not a sign of ownership of the reform idea. Case studies show (Boughton and Mourmouras 2002) that identification of a reform programme as a home grown policy enhances reform success. Internal attribution of agency, to use a psychological terminology, is thus an important indicator of ownership.

All four factors that we have identified refer to the importance of partisan politics for reform outcome. The first factor refers to the political constellation of losers and winners that a specific adjustment program may entail and therefore the chances that the relevant actors will support it during the following years. Factors 2 and 3 name some institutional aspects that heighten the chances of reforms success and sustainability. Factor 4 specifies the broader political and ideological mechanisms subsumed under the term 'ownership' that enhance successful reforms.

3.3 *Three tasks ahead*

What methods does contemporary political science offer in order to assess the weight and relative importance of these factors—and thus the chances of reform success in the future? We have to distinguish three different aspects of this question. First, we will want to know how serious the current government is about implementing the reforms currently under negotiation. One method of prediction is by extrapolating from current trends. *Trend analysis* simply assumes that the future will represent a logical extension of past trends, already visible at the moment of analysis. Inexorable forces will drive the future in a continuous, reasonably predictable manner, and one can, therefore, forecast the future by identifying past trends and extrapolating them.

Secondly, we may want to take into account that the reform programme itself will change the political constellation quite a bit if it is effectively implemented. We will thus want to know what consequences reform implementation will have for sustaining the reform momentum in

the future. This is usually done by what is called an *impact analysis*. Impact analysis provides a simple method for taking into account that in complex environments decisions may have consequences that are neither intended nor easily foreseen. The technique combines standard political science interpretation methods in order to project the secondary, tertiary, and higher order impacts of a specific intervention. Results are qualitative in nature, and the technique is often used to analyse potential consequences of projected policy changes by looking at what impact these policies have for the major stakeholders.

Third, we are aware that other, not reform-related political trends and events may also have an impact on future reform implementation. And we may want to know what the fate of reforms will be given various possible trends and events. This aspect is best covered by a scenario technique. *Scenario building* is an established tool in political forecasting and has, since the eminent successes achieved with this method by the Shell company, also gained a firm place in the arsenal of strategic planning instruments of multi-national corporations.⁵ It is also used by political risk analysis companies that produce political risk ratings of developing countries.⁶ While the scenario technique has been criticised as being rather obscure and standing on a weak scientific basis, careful use of the tool is certainly useful for organisations with long term planning prospects in uncertain and risky environments where singular political events play a major role.⁷

All the tools will thus have a trend extrapolation, an impact analysis and a scenario building component. There is no single method which will cover all the factors mentioned above. We will design three tools in order to give an idea of the variability of possible approaches. More could have been added, though not necessarily more interesting and reliable ones. The three tools demand different research techniques, data bases and competencies. We will illustrate how the three tools could have been applied in the case of the two programmes that Pakistan had negotiated in 1993 and 1997. We will not actually offer a complete analysis but indicate the major lines of such an exercise on the basis of the data that the IMF *could* have gathered in 1992/3 and 1996/7. This is not an easy task because the benefit of hindsight makes us think differently now that we know what actually *did* happen after the political upheavals of 1993 and 1997 compared to when we did *not* in 1992/1993 and 1996/1997 respectively. However, for illustrative purposes, an *ex post facto* analysis may also have its advantages, namely to allow us to see what the tools can do and what they cannot. For each episode and tool, we introduce a separate section.

⁵ Cf. van der Heijden 1997; Ringland 1998; Lesourne and Sfoffaes 1996.

⁶ The Political Risk Service Group, to cite a well known example, bases its rating system on a two-step procedure. In a first step, the three most likely future political regime scenarios are chosen by experts over a time periods of 18 months and five years. For each regime scenario, expert consultants then establish likely changes in the level of political turmoil and a series of 11 types of government interventions that affect business climate. On political risk assessment methodologies see Campbell et al. (1996); Howell (1994).

⁷ The major advantage of the scenario technique is its capacity to integrate individual forecasts on political trends with alternative event chains in a manner that still allows for some overview and reduction of complexity by integrating a number of lower-level forecasts into a series of comprehensive, understandable narratives about how the future might develop. The results can range from highly quantitative to purely qualitative depending on data basis, purpose and organisation. Although a single scenario can be used for making decisions, the use of a series of alternate scenarios allows to take account of the fact that the future can never be projected with certainty, and to determine how appropriate flexibility can be built into plans and programs.

4 Tool 1: Stakeholder analysis

Stakeholder analysis represents a method for taking account of the influence that various individuals and organisations have on future political developments. It identifies those people and organisations that have a 'stake' in economic reform programmes; analyses the importance that each individual or group assign to these programmes and the interests that they have in implementing, modifying or blocking them; and, most importantly, determines the relative chances that they may influence the course of the reform process.

A stakeholder analysis mainly focuses factors 1, 2 and 4 mentioned in the previous section. It estimates how the power base of the actual government, the relation between bureaucrats and elected politicians and 'ownership' of the reform programme will develop in the future, first by extrapolating current trends, secondly by looking at how these factors will change due to an effective implementation of a structural adjustment program, and finally by introducing different political scenarios.

4.1 Trend extrapolation

In this first step, we simply assume that the future will represent a logical extension of past trends, already visible at the moment of analysis. The basic question is whether one can already discern a reform movement on which the programme under negotiation could build. We assume that without such a trend the chances of effective implementation are weaker. Based on the findings of literature, we think that the following three developments, all relating to the ownership factor specified in the previous section, are the best trend indicators currently available:

- *Reforms under way:* Ongoing reforms of decision making structures in financial and economic policy; reforms with regard to the role of the public sector in the economy; trends in government budgets and the relative openness of the economy, etc., preferably before the negotiations with the IMF enter the stage where showing willingness of reform may be a strategy for achieving a favourable conclusion of these negotiations. If these indicators amount to a clear trend, we assume that ownership of an IMF sponsored programme will be high.
- *Decision making style:* The way the government has organised the decision making process may also be a good indicator for an ownership trend. We assume that including larger sections of the public in the debate on the necessity and content of the reforms, such as discussions in public fora, broad consultation mechanisms, publication of reform plans at early stages etc., broadens the political alliance for these plans and therefore heightens the chances for effective implementation after the signing of an agreement with the IMF. Conversely, secret negotiations with only a minimum of governmental actors involved is no sign for an ownership trend.
- *Attribution of agency:* The style of arguments that a government and other major players use when communicating with the general public about the reforms may also be an indicator of ownership. A systematic monitoring of government communications, both published and unpublished (such as speeches by government representatives), is necessary in order to arrive at a solid trend estimation. A quantitative content analysis of major government publications and newspaper

coverage would represent the most elaborate tool in this context but may go beyond what is feasible given constraints on time and resources.

4.2 Impact analysis

We assume that the incentive structures of key actors are modified through effective implementation of a reform program and that their political behaviour may change accordingly, e.g. by withdrawing support for a government and causing it to fall. Such political impacts may be crucial for the sustainability of the reform programme itself. A government, to give an example close to the Pakistan case, that depends on the political support of the landed gentry may not survive effective implementation of a reform programme that introduces effective taxation of agricultural income.

Impact analysis would specifically have to look at

- possible changes in the balance of power between major actors within and outside government (see the factors 2 and 3 in the previous section) that result from effective implementation of the adjustment programme;
- the way that this possible outcome influences political support for the programme within and outside government and therefore the sustainability of programme implementation in the future.

4.3 Scenario building

Obviously, the chances of sustained implementation not only depend on the—intended and non-intended—consequences of the reform programme itself, but on other political trends and events as well, which unfold independently of the reform programme and are related to other major domestic and international political developments. Elections with uncertain outcome, the decline of popular support for an undemocratic regime, crisis in bilateral relations with neighbouring countries are typical examples. Various such trends and events can be combined into scenarios, i.e. possible future political constellations that will have different consequences for the various stakeholders and therefore also modify their stance towards the economic reform programme. The different scenarios may be ranked by probability.

4.4 Applying the tool to the case of Pakistan: an illustration

A stakeholder analysis in the three steps described above needs a very solid knowledge of the political situation and history of a particular country. The analysis would first focus on the three trends that we have identified as important indicators of ownership. In a second step, the impact of the reforms on their own future political feasibility has to be assessed. In a third step we will outline some possible lines of a scenario exercise. For all steps, the political developments for 1993 and 1997 will be forecasted in an illustrative, tentative way from the perspective of the turn of the year 1992/93 and of February 1997 (after the elections).

4.4.1 Stakeholder Analysis in 1993

Trend extrapolation I: Reforms under way

Since he came to power in 1990, the government of Nawaz Sharif favoured economic liberalisation and had already launched a deregulation programme strengthening the private sector. The economy was booming in 1992, reaching a GDP growth rate of 6.4 percent. The

budget deficit was brought down to 6.9 percent from 8.8 percent in 1990/91 but it was still far away from the goal set by the IMF of 5.8 percent. The reduction was achieved by cutting down spending in the education and health sectors and by reducing public work programs. There were no plans to introduce an agricultural tax or to increase tax revenues in general, both measures that would have met resistance among the major groups supporting the government such as the Jamoori Ittihad coalition (IJI) in the Punjab with its important landowners. The Sharif government also had to cope with attempts at Islamising the Pakistani economy. This created some confusion in June 1992, when provisions related to interest taking contained in 22 laws were declared invalid by the Federal Shariat Court (Khan 1993). Looking at the measures already undertaken, the Pakistani government thus seemed to have the political will to continue the process of reforms at the beginning of 1993. The reduction of the budget deficit could be taken as a clear sign of ownership. The political basis of the government at the national and provincial level seemed to provide enough political strength to implement further reforms. However, the existing reform trend was clearly selective and avoided important areas that would have touched the entrenched interests of groups on whose political support the government depended.

Trend extrapolation II: Decision making style

Political decision making was mostly concentrated to the higher echelons of the government that included the troika of the Prime Minister, the President and the Chief of Army Staff (COAS). Given the loose structure of Pakistani parties and the sudden changes in political loyalties as reflected in the breakaways from the ruling IJI-coalition in 1992, it is doubtful whether there had been a general debate within the government about the next steps of the reforms. It is more likely that these steps were decided upon by the inner circle of a relatively isolated group of decision-makers and then left to the respective ministers to implement.

Despite the political rivalries, there was, however, an agreement between the main political parties about the necessity to continue the reforms. Benazir Bhutto, the leader of the Pakistan People's party (PPP), had declared that she would not reverse the process of privatisation if her party would come back to power. But during her government, decision making followed the same principles and was restricted to a very small group of advisers. Given this structure of communication and decision making, a broad ownership of the reform idea had certainly not yet developed.

Trend extrapolation III: Attribution of agency

We lack access to documents written by the Pakistan governments addressing the larger public (such as press releases or information brochures) and we consulted the published press to only a very limited extent. Our impression is that IMF-sponsored reforms have been presented as a bitter pill the country has been forced to swallow by a powerful outsider. Implicitly and sometimes explicitly, however, the message was that the pill would not be consumed as bitter as it looked at the moment of negotiation, given the apparently widespread assumption in the informed public that lending was politically motivated and the reward for political alliance with the US e.g. on the Afghan issue. The style of communication on the reforms thus does not show signs of genuine 'ownership' by the major political forces.

Impact Analysis in 1993

Despite a high degree of public mistrust and facing charges of corruption, the government of prime minister Nawaz Sharif and the ruling IJI seemed to be firmly in power at the turn of 1993. His party had a majority in the National Assembly and strong support in the Senate. Equally important, his party formed part of the ruling governments of all four provinces. Some disintegration of the IJI-coalition had taken place in 1992 when smaller parties broke away from the government but this is a rather common phenomenon in Pakistani politics.

Moreover, Sharif had the confidence and support of the other three major power centres in Pakistan: the president, the bureaucracy and the armed forces. The support of the latter was bought dearly: Despite the reduction of the deficit and the financial cut backs in the social sector, the military budget increased by more than 11 percent in 1992. The bureaucracy, that is regarded as another important power centre in Pakistan, seemed to support Sharif's policies that were not targeted at their privileges and did not imply a serious limitation of government employment in the power ministries or an attempt at reducing their capacity of selectively distributing services, especially in the financial sectors where awarding of credits on the basis of patronage was common.

The implementation of the programme would not have affected the power balance between the army, the president and the prime minister, given the generous treatment of military expenditures in the proposed agreement. However, the other parts of the political equation would have changed quite a bit. Taxation of agricultural incomes, one of the cornerstones of the proposed agreement, would have seriously reduced the support of the government by the IJI coalition. The increase of indirect taxes may have heightened public discontent and may have strengthened opposition parties. This may even have led to a shift in majorities in the next election. Thanks to the agreement between the main parties (see above), this would perhaps not have stopped the reforms, but certainly heightened the pressure for softening the consequences for the larger public and taking tax reform back. The independence of the central bank and the reform of the credit awarding mechanisms would have seriously limited the capacity of government staff to distribute credits along the lines of political patronage. It is uncertain in how far this would have resulted in a broader anti-government coalition within the administration. An in-depth analysis of the network of alliances in the financial field and the consequences of the proposed changes would be necessary in order to arrive at a solid assessment of the possible impacts of the reform in this area.

In sum, it seems that effective implementation of the reforms would have shaken at least part of the political basis of the regime and it is doubtful whether it would have survived a comprehensive enforcement of reforms in the tax and financial sectors.

Scenario Building in 1993

We cannot embark on a fully fledged scenario exercise here but should merely like to mention some trends and events that would certainly have had to be taken into account in 1993. Five events immediately come to mind: 1) a change in government; 2) a military coup related to charges of corruption and inefficiency; 3) an escalation of Sunni-Shiite tensions or other loci of domestic violence; 4) a crisis in bilateral relations with India; 5) a sudden deterioration of relations with the US government (linked to the Afghanistan question).

The following trends could have been taken into account: 1) Growing influence and power of Islamist groups in the political arena; and 2) the decline of the integration capacity of the clientelist party system and the rise of new political movements based on the urban middle class.

A whole range of economic events (such as oil price shocks) and trends (in the development of the prices of major export products, in GDP development) on which the IMF has already a high competence would have to be included in the scenario building exercise. The result would be a handful of major lines of development (that bundle trends and events) with different probabilities. The implications for reform implementation would then have to be assessed.

Conclusion

On the basis of this sketchy analysis, we would have come to the conclusion that in 1993 serious doubts about future implementation of the adjustment programme would have had to be raised. The decision making coalition endorsing reform was not broadly built. It did not include larger sections of the public in order to counter-balance the possible loss of support from the power base of the current regime and from within the administration that effective implementation would have brought about.

This is, evidently, merely an outline of an argument, meant to illustrate the style of reasoning that would be applied in a stakeholder analysis. A serious study would have to be based on a much deeper understanding of issues we barely alluded to and it would need a much better data basis than the one we had consulted in preparing this note. The same holds true for the stakeholder analysis for 1997 that now follows.

4.4.2 Stakeholder Analysis in 1997

At the beginning of 1997, the political situation showed some similarities with early 1993. In November 1996, President Leghari had dismissed the government of Benazir Bhutto on charges such as administrative inefficiency, corruption, continuous violations of law and order, and nepotism. The elections of February 1997 brought a resounding victory for the Pakistan Muslim League (PML) of Nawaz Sharif. He won a nearly two third majority in the National Assembly. His party could also form the government in the Punjab, the most important province, and was part of the coalition governments in Sindh and the North West Frontier Province (NWFP) (Syed 1998). Like in the beginning of 1993, the Sharif government seemed to dispose of a comfortable political majority. As a consequence of the political turmoil of 1996, the main opposition party PPP was weakened, which again seemed to strengthen Sharif's position. But given the experience of the 1990s and especially of 1993, when the country was governed by five different prime ministers, it was clear that political stability was not forever and that it could be easily replaced by quarrels between the prime minister, the President and the army.

Trend extrapolation I: Reforms under way

The political turmoil of 1996 had spilled over to the economy. The government again could not overcome the structural constraints that Pakistani politics impose on economic reforms: no agricultural taxation was introduced and the military budget rose by another 14 percent in 1996. To increase the revenue base indirect taxes were raised. This led to demonstrations and strikes in various parts of the country against rising costs of living. The protests were headed by different parties and religious groups and made it clear that every new government would face stronger resistance to implement such programmes.

In November 1996, the interim government had reached another agreement with the IMF to reduce the budget deficit below four percent of GDP in the next fiscal year. The interim government undertook several measures to stabilize the shrinking foreign exchange reserves

and to cut down the budget deficit to the 4 percent level. The government even undertook reforms to increase the tax base: key ordinances were passed in parliament with regard to the taxation of agricultural income by the provinces; it undertook important steps in the banking sector such as giving autonomy to the State Bank of Pakistan to formulate monetary policies, strengthening its supervision function and power, facilitating loan recovery etc.; it attempted at addressing the problem of overstaffing by initiating a downsizing programme for the public sector. On top of this, the interim government undertook a number of symbolic measures like the closing down of VIP lounges in the airports in order to demonstrate to the public the willingness of the elite to contribute to the reforms (Talbot 1998).

Given Sharif's earlier policy and the commitment he had shown to privatisation and deregulation, he seemed to be a reliable partner for the international development community when he took over the government in February 1997 for the second time. Despite a growing public opposition, his government seemed to be committed to pursue a reform path. However, the frequent breakdown of earlier programmes, illustrated that the commitment of key politicians as well as the bureaucracy to implement the programmes seemed still to be low (Husain 1999). In addition, most of the reforms (notably with regard to tax issues) were still in the preparatory, law making phase and no serious attempt at building up the capacity and enforcement apparatus was being made.

Trend extrapolation II: Negotiation style

The structure of political decision-making remained the same in 1997 as before. Negotiations were still held in secret and there did not even seem to be a thorough debate within the government about the necessity, general direction and consequences of the reform programmes. Decision making was still limited to a small group of politicians and advisors. Past agreements with the IMF were kept secret and not even made accessible to the parliament (Husain 1999). In contrast to 1993, however, the public was much more aware of the implications of the reform programmes and every government had to fear that the opposition would take protests against unpopular reforms to the streets.

Trend extrapolation III: Attribution of agency

Compared to 1993, it seems that the reforms were now even more than before seen as a necessary evil imposed by the IMF. The IMF was presented in public discourse as a scapegoat for unpopular reforms. It had become dangerous for any government to present its own policy as being in line with or being the result of negotiations with the IMF—the IMF being seen by the growing Islamist movement as a willing tool in the hands of the archenemy, the US government. Even for development oriented politicians and technocrats, keeping distance from the IMF and the reforms in the way they presented themselves to a larger audience had become, so it seems, a widespread strategy. Again, a clear sign of lacking ownership.

Impact Analysis in 1997

Like in 1993, Sharif seemed to have a resounding majority in Parliament which could be regarded as an asset for further reforms. However, his power basis had not changed fundamentally and the impact that the reform programme negotiated in 1997 would have on this basis was again mixed. The military and their demands for high defence budgets were not seriously challenged by the reform programme; the program foresaw a slight reduction in defence spending as a share of GDP, but still envisaged a substantial absolute increase over a three year period. However, like in 1993, effective implementation of the proposed tax system

for agriculture producers would seriously affect the political balance to the detriment of the ruling party. The proposed banking reform, especially the change in bank supervision rules, the end to patronage recruitment practices, and the proposed privatisation and downsizing of large sectors of the banking system, together with the general downsizing of the bureaucracy would certainly have brought key civil servants within the ministries in opposition to the government.

Most importantly perhaps, the impact of reforms on the politics of popular mobilisation had changed compared to 1993. After the events of 1996, the prospects for political unrest after the implementation of reform programmes was higher than in 1993. Strikes and protests against the reforms had helped to topple the second Bhutto government. Parts of the private sector were still in favour of a privatisation programme but the resistance against it had become apparent in the 1996 riots against the Bhutto government. Moreover, these political quarrels started becoming mixed with religious violence and ethnic mobilisation in various parts of the country. The proposed reform package, which included a *de facto* freezing of spending on welfare, a foreseeable end of the heavily subsidized credit schemes in the agricultural sector and other elements of the programme would certainly provide enough fuel for mobilising discontent in a politically relevant way.

Thus, it seems that the political space for implementing reforms had become even narrower than in 1993 and that the government would not politically survive an effective implementation of the negotiated reform package: A reform of the tax system was not realistic given the power basis of Sharif's government, the estrangement of parts of the high level civil servants and the end to political patronage in the banking and finance sector could prove to be risky, and the political costs for introducing indirect taxes and reforming the system of public subsidies had risen considerably.

Scenario Building in 1997

The scenario exercise would follow similar lines as the one in 1993, with different probabilities attached to the various events and trends and therefore to the integrating scenarios.

Conclusion

This sketch of a stakeholder analysis for 1997 would result in considerable doubts with regard to the future prospects of reform implementation. On the one hand, the elected governments seemed to be politically powerful enough and willing to implement a serious programme touching core issues such as overstaffing, public subsidies, and most importantly taxes. On the other hand, effective implementation would again have undermined the power basis of the regime and seriously reduced the range of political alliance partners on whose support the government rested. Given that ownership of the reform remain limited to a very small circle of decision makers within government and that public protest against cutting subsidies and raising taxes had become part of political mobilisation strategies by various opposition forces, it seems unlikely that a new, broadly built alliance for reforms could have developed in order to compensate for the loss of political support that effective implementation would have entailed.

5 Tool 2: Institutional analysis

5.1 *A three step design of an institutional analysis*

Institutional analysis aims at identifying the ‘rules of the game’ governing a particular reform proposal’s implementation. It allows to predict outcomes given rule governed relations among key veto players that are pro- and anti-reform within the relevant institutional context (see the methodology developed by Tsebelis 2001). We propose a three step analysis.

The first step would consist in an ‘institutional mapping’ that identifies ‘agenda setters,’ the ‘gate keepers,’ the ‘veto players’ and the system of rules that govern their interaction—both formally and informally. The exercise goes beyond redrawing official organisational charts because it includes every institution that has a say in reform policy making and implementation, regardless of institutional boundaries e.g. between ministries or between government and private organisations (cf. the example of the flow charts in Orstavik and Nas 1997).

Secondly, the institutional maps allow one to identify the key veto points (cf. Immergut 1990) where reform could be blocked or accelerated. Actors sitting at these veto points in the stream of decision making and implementation can re-interpret a decision already taken by redefining the field of application (introducing ‘exemptions’ etc.) or by giving it another meaning; they can revert a decision by vetoing it formally; they can block effective implementation informally by ignoring the decision, by linking implementation to additional conditions, by delaying action etc. The exercise also allows to discern key institutional changes necessary to prevent coordination and implementation failure by improving informational flow, bypassing veto-points through institutional change and enhancing transparent implementation as part of the reform proposals themselves.

The third step would be to determine the effective capacity of reform implementation. On the basis of the institutional mapping and veto point analysis we would assess the relative autonomy and decision making power of those branches of the bureaucracy in charge of implementing an economic adjustment programme. We would assume a) that the chances of a reform programme are better if implementation is not blocked by veto points beyond the control of these agencies; b) that depending on the position of these agencies on the institutional map, incentives for effective reform implementation are higher or lower (they are higher, to give an obvious example, if appointments are not controlled by other institutional actors hostile to reform); c) that chances of implementation are higher when these key agencies are staffed on a non-paternalistic and non-clientelistic basis according to merit criteria. Thus, we would also have a look at the professional capacity of these agencies, i.e. at the educational background of the staff and their exposure to international experience, at their level of competence in planning, monitoring, evaluation etc.

Institutional analysis is best suited to address factors 2 and 3 mentioned in section 3, i.e. the relative independence of state agencies from political actors and the institutional capacity for reform. As with the other tools, institutional analysis may be used as a forecasting instrument in three different ways: We may extrapolate from existing institutional set ups on the future chances of effective implementation of reforms (assuming continuity of current trends); we may study the impact of a reform programme on institutional set ups and therefore on the

sustainability of the reform programme; finally, we may introduce different scenarios of institutional change and see how they influence the mid-term prospects for economic reform.

Trend analysis. Given institutional analysis' tendency to emphasise continuity, this first step would mainly consist in extrapolating the likelihood of reform implementation assuming continuity of given institutional arrangements and therefore incentives for different actors.

Impact analysis. Impact analysis gives an answer to the question if reform itself will make government 'better,' i.e. whether or not the reform capacity of relevant state agencies will be strengthened or weakened by the institutional aspects of the proposed package. The tool would also help to gauge the impact a particular set of reforms on other institutional players with diverging interests and veto powers. On the basis of a particular institutional structure and a particular set of reforms, one could anticipate such impacts and eventually take corrective measures in the design of an adjustment programme.

Scenario building. Measures against institutional failure and backsliding may require the creation of new institutions, strengthening some and weakening others, and other related changes in the 'rules of the game.' Scenario building helps to anticipate what such changes would mean in terms of altering the landscape for reform friendly agencies within government in the future. Here again, institutional mapping with future scenarios may help to identify favourable and unfavourable patterns of development and to stimulate thinking in terms of policy alternatives when designing reform plans.

5.2 Applying the tool to the case of Pakistan

This tool is the most difficult to simulate, given our rather limited knowledge of the inner workings of the Pakistan government, the different ministries, the banking system etc. Such detailed knowledge is not easily accessible from the outside and does not usually appear in a published form. Even within the government, the process of decision making and the importance of respective ministries is not very transparent. In what follows, we give some hints on the lines along which such an analysis could proceed. We limit ourselves, given these constraints, on the first aspect of institutional analysis, to extrapolations from the current situation.

5.2.1 Sketch of an analysis for 1993

Institutional mapping of Pakistan

Trying to map the different institutions that are involved in decision making in the field of economic reforms would involve the very highest echelons of government, including the prime-minister and his advisors, the inner circles of the ruling parties, the different departments of the Ministry for Finance, Revenue, Economic Affairs, Planning & Development & Statistics, the leadership of the Central Bank, the National Security Council, the four provincial governors and their political advisors (responsible for example for some aspects of income taxation). It is unclear at this moment which of these institutions (and others we might not be aware of) effectively would have to be included in the map, i.e. which ones actually are involved in decision making and implementation. In order to undertake a solid institutional mapping it would be necessary to have more detailed information about the

(formal and informal) rules governing the relations between these institutions and the decision flows across organisational boundaries.

Veto point analysis

A full veto point analysis would certainly reveal that the institutional position of the government was restricted by two factors inherited from military rule. First, the eighth amendment allowed the indirectly elected president to dismiss the directly elected prime minister and his government. This happened for the first time in 1990 when the government of Benazir Bhutto was toppled. Secondly, the army was still the most crucial veto actor that could influence all government decisions, including economic reform programmes. Although the armed forces had handed over power to the elected government in 1988, it became clear that no civilian government could control the armed forces or the intelligence services (Hussain/Hussain 1993). The strength of the armed forces and their impact on economic reform programmes is illustrated by the fact that no government dared to cut down the defence budget in any programme negotiated with the IMF we are aware of. The veto point analysis would have to reveal in how far these two institutional actors do indeed represent veto power with regard to the details of an economic reform programme and in how far they intervene in implementation and enforcement decisions.

Besides the army and the president, the bureaucracy would be another potential key veto point on the institutional map. Taking into account their social background mainly from elite families often with landed interests, their motivation to pass through reforms that would curtail their families' privileges (such as de facto tax exemption) appears to be rather limited. The same holds true for most members of the National Assembly (MNA) which would (perhaps) also appear as a veto point on the institutional map of Pakistan reform politics.

Given the strong representation of landed interests within the bureaucracy and the MNA, a veto point analysis would reveal that it was highly unlikely that any law would be enforced that would seriously introduce taxation on agricultural income. Great parts of the bureaucracy would also not be in favour of privatisation programmes that would have implied to seriously cut down their domains of political influence.

However, we have no information about the power balance between different ministries or different departments within key ministries and between different factions of the political parties in the MNA and are therefore not in a position to see if this general statement would have to be qualified when having a closer look at the actors sitting at crucial veto points within the bureaucracy and parliament.

Implementation capacity

Here again, we have to limit ourselves to very general remarks that certainly would have to be modified by a detailed analysis on the basis of better information. We are almost certain, however, that such an analysis would conclude that despite the long tradition of military rule, Pakistan showed a serious weakness of its law and policy enforcing authorities. Widespread corruption, neo-patrimonial patronage structures and recruitment procedures explain at least in part the difficulties in enforcing basic rights and duties in different areas.

Most ministries use the large discretionary powers that these deficits imply in order to build up their own network of patronage relationships and therefore enhance their standing in the all embracing web of political alliances. A good example of this is the way that the Central Board of Revenues interprets the myriads of exemptions in tax law on a case to case basis. The situation in public enterprises and in the banking sector are comparable. Every

government would face the problem of such deficient implementation capacities. This weakness would also have an impact on the design and interpretation of the reform programmes. The rise of indirect taxes, to give an example, would be favoured in order to circumvent the enforcement problems of direct taxation.

A more detailed analysis would perhaps draw a more positive picture of effective implementation capacity by having a closer look at different departments within ministries and at different ministries. However, we feel that serious doubts about the implementation capacity with regard to public sector reform, banking sector reform and, above all, tax reform would be the unavoidable results even of an in-depth analysis.

Conclusions

While the foregoing analysis is too sketchy to allow for solid conclusions, we are convinced that serious doubts about the implementation prospects of the negotiated agreement of 1993 would have resulted from this exercise in institutional analysis. The veto power of a bureaucracy and parliament where anti-reform interests are clearly important and the weak implementation capacities are perhaps the two most solid conclusions that we could expect from a more solid study.

5.2.2 Institutional analysis for 1997

On the basis of the information available to us, we do not see a substantial change in the institutional set-up between 1993 and 1997. Institutional mapping would therefore have produced similar results. With regard to the veto point analysis, however, it seems that the near two third majority gave Sharif for the first time an opportunity to overcome the constitutional problem by eliminating the parliament as one veto point in the policy process. This would have enhanced the prospects for reform implementation, freeing the government from the pressure of the president. However, this would perhaps not have helped much to overcome the basic problem of a lack of capacity and will of large parts of the bureaucracy and political elite to implement the reforms. The chronic instability of Pakistani governments would have put hopes for circumventing parliamentary blockades to reform processes in perspective. Institutional analysis such as proposed here would help to avoid overestimating the current political constellation (which looked better in 1997 than before) and focus on the more stable institutional factors influencing reform prospects in the future.

6 Tool 3: Delphi study

6.1 *The Delphi technique*

The Delphi technique involves initial projections, usually in quantifiable terms, of future trends and possible events. These initial projections are provided by the organisers of the Delphi panel in the form of a questionnaire sent to 10-25 participants. The participants are asked to estimate the importance of these trends and the likelihood of events. A summary of these estimations (usually mean responses) are then returned to the participants in the second round of the procedure. They are asked to either explain their eventual divergence from the mean and/or to give a new estimate of trends and likelihood of events. Usually, opinions are made after three rounds and no major shifts in the mean estimations are to be expected (cf. Häder and Häder 2000).

The Delphi survey technique is a method for taking advantage of the talent, experience, and knowledge of a number of experts in a structured manner. It allows an exchange of divergent views without direct confrontation and thus avoids the opinion leadership problem—the typical problem of expert panels where charismatic or powerful leaders emerge whose views are multiplied through processes of imitation and conformist adoption. The Delphi technique was originally developed in the fifties by the Rand Corporation in order to estimate where possible attacks by the Soviets could take place. Later on, the Rand Corporation used Delphi panels to foresight technological and scientific developments over a range of ten to fifty years. Since then, several thousand Delphi studies have been conducted and the methodology has been refined considerably. They are currently considered to represent the most reliable forecasting tool in the social sciences. It remains to be seen, however, how well the tool works in unstable political environments such as in developing countries undergoing far reaching economic reforms. Only few researchers have used the technique for the analysis of future political trends in such environments.

Drobnick's (1984) Delphi on future political risks to foreign investments in Canada and Mexico has a paradigmatic character here. The study comprised five steps: 'First, the major long-term national issues that Mexico and Canada need to resolve in order to achieve progress were identified and evaluated. Second, trends that depict political-economic change and domestic and international events that constitute, or contribute to, such changes were identified. Third, the usefulness of these trends and events as early warning signals of change in relationships between society and foreign corporations was evaluated. Fourth, the future values of these trends and the probability of occurrence of these events by the year 2001 were forecast. Fifth, the potential inter-relationships between these events and trends were estimated' (Drobnick 1984:319).

Much of this design could also be used for specifically assessing the political feasibility and sustainability of a reform package. The panel would be asked the following questions:

- how they estimate political trends in the recent past and how they estimate the probability, given these trends, that the current government will implement different packages of reforms effectively (trend extrapolation);
- how they estimate the possible impacts of different reform packages on the political power bases of the regime and on relative autonomy (and capacity) of the implementing agencies and what consequences these impacts may have for the continuation of the reforms (impact analysis);

- what probabilities they attach to future political trends such as a changing balance of power between parties or the mobilisation of hitherto politically passive sections of the population etc.; how likely certain singular events may occur in the future; and how they rank combinations of trends and events (scenarios) by probability and impact on reform.⁸

The experts would, in other words, produce similar analysis as the one we summarised under tool 1 (stakeholder analysis), yet in a more formalised way and giving quantitative likelihood estimations for different trends and events. The tool allows for introducing policy options such as different phasing and/or combinations of reforms and produces estimations of implementation chances for each variant.

Crucial for the outcome of Delphi studies is the composition of the panel. One major problem is to determine in an *ex-ante* fashion effective expertise. Some specialist (Rowe et al. 1991) recommend to conduct pre-tests with possible participants, asking them questions of relevance to the specific field in question in order to assure the desired level of competence. We would recommend such a pre-selection for a Delphi on political feasibility and sustainability of economic reform by asking possible experts questions on financial reforms in the country in question.

The Delphi would include the most important political analysts and advisors (from government, think tanks, universities, business associations, the independent press, civil society etc.) of a country as well as outside experts with very solid knowledge of the political context. The experts would have to represent the spectrum of opinion more or less adequately. The Delphi study would synthesise and summarise their opinions and identify the ‘common ground’, i.e. the shared understanding of the probabilities for reform implementation and continuation. The extent to which the IMF itself would be in an adequate position to organise the study, given the possible implications of organising expert rounds on highly sensitive issues that some governments hesitate to share with a wider public, is a question that we do not address here.

6.2. *Applying the tool to the case of Pakistan. Outline of a Delphi for 1997*

Pakistan disposes of a very good infrastructure of state and private research institutions, independent newspapers, NGOs and business organisations from which experts for a Delphi study could have been drawn. For illustrative purposes, we have prepared a list of questions that a Delphi study could have covered in 1997. They are again grouped along the three dimensions of trend extrapolation, impact analysis and scenario building:

- How do experts evaluate the recent reform trends (in terms of robustness, irreversibility, credibility etc.) in the field of agricultural taxation, banking reform, public sector downsizing, privatisation etc.; how they think that ownership of the reforms has developed recently within the government and beyond; what the probability of reform implementation would be extrapolating from these trends; how

⁸ On the combination of Delphi and scenario techniques see Gries (2000).

different variants of the reform package will actually change the probability of implementation.

- How experts estimate the political dependence of the actual government from agricultural interests; how effective taxation of agricultural income would change the political alliance structure of the actual government and its chances of political survival; how experts estimate the political importance of non-business based credit transactions in the state banking sector; how chances of implementing reforms in this sector would impact on the power basis of the government and the chances that it will continue to implement reforms; etc.
- How important and realistic do experts judge mid-term trends such as the growing importance of Islamic movements and parties, the rising tensions between Sunnites and Shiites, the growing engagement of Pakistan in the Afghan war with different implications for domestic politics; the growing tensions with India over the Kashmir issue; etc. What probabilities do experts attach to events such as new elections with the opposition party winning; an army coup against the 'corrupt' government; a break of the alliance with the US over Afghanistan politics; etc. How would experts rank different scenarios (combined trends and events such as proposed by the organisers of the survey) by probability?

7 Conclusions and recommendations

Obviously, the three tools for assessing the political feasibility and sustainability of reforms differ in various aspects. First, they demand different types of expertise knowledge, datas and organisational set-ups. Secondly, they address different factors: Stakeholder analysis looks at the power bases of government, at the independence of reform minded bureaucracies and at ownership. Delphi studies address all four factors identified as crucial for effective implementation. Institutional analysis looks at the independence of bureaucracy and reform capacity. Third, the three tools produce different pictures of the same political reality. Stakeholder analysis emphasises the importance of the volatile constellations of power between important actors while institutional analysis focuses on the more stable aspects and the inner workings of the government machinery. Most importantly, the tools may also produce different results.

The first step of the stakeholder analysis for 1997 (analysis of reforms under way) and the veto point analysis for the same year, to give an example, would have resulted in a much better prognosis for reform implementation in Pakistan than the other steps of the analysis. It may sound like a truism to state that the choice of the tools seems to be of crucial importance for the outcome of the exercise. It is therefore important to include as many steps of the individual tools and as many tools as possible in the exercise in order to catch as many aspects of political reality as possible.

The conflicting results of different steps or different tools have then to be outbalanced by what is called the 'triangulation of methods': The individual steps of analysis are repeated, looking for errors of interpretation or new evidence that allows for a modification of the conclusions. This is repeated as long as necessary in order to arrive at a reasonably coherent overall assessment of the prospects for future reform. It may also be, however, that no such integration can be achieved. In this case, 'good judgement' has to decide between different conclusions.

However, this triangulation procedure represents an ideal case that may be difficult to realise outside the world of pure research. Time and political constraints are important for an organisation like the IMF. The choice of tools may therefore also be determined by other considerations than consistency and validity of results. More precisely, it may depend on

- the nature of past experience with a country, i.e. the importance given to the different political factors responsible for backsliding. If power politics by special interest groups is more important than institutional capacity, the assessment of political feasibility should rely on a stakeholder analysis rather than on institutional analysis. Where doubts about institutional capacity seem to be justified, institutional analysis may be preferred.
- The characteristics of the political system in question. Stakeholder analysis is recommendable in politically volatile situations with fast changing institutional set-ups (Russia after the collapse of the Soviet Union is a case in point). An institutional analysis, by contrast, only makes sense in relatively stable political systems where institutional rules of the political game are respected.
- The nature of available knowledge. A Delphi study is ideal in situations where in-house knowledge is low and/or experts disagree widely. The other two tools demand

considerable professional capacities by those undertaking the analysis (be it in-house or by consultants).

- The political sensitivity of the reform package. If a government allows for open debate and makes reform plans public, a Delphi study (the politically most sensitive tool) may be feasible. An institutional analysis requires also rather sensitive information and may be seen by partner governments as an intrusion into their domestic affairs. Stakeholder analysis is clearly the least sensitive tool discussed here.

We would recommend to develop a multi-tier assessment procedure that takes these points into account. The lowest tier would consist of the easiest to do, least politically sensitive and least context dependent tool. Clearly, this would be a stakeholder analysis, comprising trend extrapolation (focussing on ownership factors) and impact analysis. This tool could, after thorough testing in a good number of cases, be mainstreamed to the assessment procedures of all Fund-supported programmes.

The second tier would consist of the institutional mapping exercise, more precisely the trend extrapolation part of it. It demands more sensitive information and also research capacities going beyond what a stakeholder analysis needs. Given the volatile political context in many reforming countries, it perhaps makes sense in fewer cases than the stakeholder analysis.

The third tier could be composed of the scenario building exercise of the stakeholder and institutional analysis which would also be needed as an input to the Delphi study. The Delphi study itself is the most politically sensitive and the most costly in terms of organisational efforts and time needed. It can produce very reliable results, on the other hand.

Depending on the systemic importance of a case and the doubts about implementation, the more complex and sensitive second and third tier tools could be applied. The following table illustrates this idea, the darker shaded boxes representing the higher tiers of the assessment system.

| Dimension of analysis | Tool | | |
|-----------------------|------------------------------------------------------------------------------------|-------------------------------------------------------------------------|--------------------------------------|
| | Stakeholder analysis (addresses power base, independence and ownership factors) | Institutional analysis (addresses independence and capacity factors) | Delphi study (addresses all factors) |
| Trend extrapolation | Reforms under way | Institutional mapping | General trends |
| | Decision making style | Veto point analysis | |
| | Attribution of agency | Capacity assessment | |
| Impact analysis | Impact on power balance | Impact on institutional set-up | General impacts |
| Scenario building | Scenarios of political events and trends | Scenarios of institutional reform | General scenarios |

It seems obvious that taking political factors into account in such a systematic way brings in a range of very contested issues, such as how far the IMF should and could enter into political and institutional assessment exercises. It certainly demands a good deal of careful judgement by the IMF to determine how far the Fund wants to follow the direction of political feasibility considerations that we have outlined here. Should this be the case, we believe that using the tools outlined in this paper would represent an adequate first step in a learning process that will certainly demand much time and institutional energy.

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