5

The Political Economy of Reform: Role of the Internal "Journalist"

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The Making of Public Policy

This chapter is not a piece of academic research or scholarly analysis. Instead, at the request of the editors, I provide a personal account of how I, a journalist by training, introduced political analysis into the design of some key World Bank operations in India while I served as an external affairs officer in its New Delhi office during 2000–06 as well as an account of the approach I adopted.[1]

This chapter begins with a basic question: How is public policy made in India? India is a democracy, and so the answer is apparently obvious and intuitive. Elected governments make policy. Parliamentarians discuss and approve the legislation required to make that policy operational. Economic and social lobbies and interest groups attempt to influence the outcome to their best advantage. Civil society and the media utilize the public sphere to keep the process accountable. The judiciary ensures the constitutionality of the measures being proposed. And everyone lives happily ever after.

But in India—and India here is just an empirical example; the same would hold true for any society larger than Robinson Crusoe's—the truth, to quote Oscar Wilde, is rarely pure and never simple. The problem arises in the real-life practical complexity that underlies each of the steps enumerated above.

What is elected government, for example? In India, it is personified by the minister, who presides over the policy-making apparatus. As a participant in a parliamentary democracy, the minister is a politician who represents (1) an amalgam of interests composing his or her geographical electoral district, (2) the social (caste, linguistic, or religious) group he or she represents and is expected to patronize, (3) the party's political strategies, and (4) the mercantile groups that bankroll the minister's political life and to whom he or she is obliged.

However, government in India—as anywhere else—is also the permanent bureaucracy. The senior bureaucrat in the ministry is a person of formidable experience in administration, is a master of procedure and precedent, is a rigid adherent to the precept that information is power, is usually someone of superior intellect to the more down-to-earth minister, and is a person with a marked preference for the perfection of minutiae over the momentousness of change. The bureaucrat runs circles around the minister; the minister retaliates through punitive transfers. No matter. In India, it is the bureaucrat who makes (or stalls) policy, and the minister who attends to the day-to-day hassles of office.

The bureaucracy is also the clerical cadre: a large, complacent, constitutionally safeguarded, politically affiliated body of men and women, jealously protective of their lifelong guarantee of employment and their health and retirement benefits. Is it their job to provide public services to fellow citizens? No, the concept does not exist. The ingrained idea instead is that it is they who are recipients of public service—from the government that serves them, and thereby the nation, by employing them and paying them well.

What of the parliamentarian? Like the minister, the parliamentarian represents a mix of geographical, social, and commercial interests. In addition, this person must display loyalty to the party leader or risk being disciplined, being denied a party nomination at the next election, or even being expelled from the House if he or she violates a party whip. Further, in the electoral district, the parliamentarian is patron of the specific political client groups that voted him or her to victory and, because of the bureaucracy's failures, is mediator (often for a fee) between citizen-petitioners and government service providers.

This last role puts politicians under intense pressure, for it is on their ability to bestow favors, distribute largesse, and extract as concessions from the system what it should ordinarily be providing that they will be judged by clients and voters. This role makes the politician live for the short term, prone to seeking rents, and apt to develop a vested interest in policies that increase the day-to-day citizen-government transactions in his or her district.

India—argumentative society that it is—is blessed with a vibrant civil society.[2] Caste and social networks, business and professional associations, activist and developmental nongovernmental organizations (NGOs), religious and charitable organizations—all inhabit the public sphere with a combination of self-important sense of high purpose, sharp self-interest, and a consequent well-developed facility for vocal expression and lobbying ability.

The public sphere itself is increasingly mediated by a fast-expanding, often raucous, businessman-owned and urban-middle-class-oriented media, both television and print. This sphere is supplemented by the growing and powerful phenomenon of the citizen-activist-journalist, who is able to connect with thousands of others through the Internet and cell phone and to mobilize, in an instant, thereby mutating constituencies around transient causes.

Let us not forget the judiciary with the well-regarded Supreme Court at its apex. On the one hand, the higher judiciary has played its role of conscience keeper well. On the other, it has often been accused of needless activism in matters that should be the prerogative of the executive. Down at the level of the ordinary citizen and firm, the courts are inefficient, corrupt, and clogged. What can be said for a system that has a current backlog of nearly 30 million cases?[3]

Just to make things a little more complicated, I must insert here the gentle reminder that the public sphere in India is not a single abstraction. There is the national or federal sphere; 28 state spheres; and thousands of city, district, and village spheres. There are cross-cutting linguistic, religious, and cultural spheres. The political class, bureaucracy, civil society, media, and judiciary are all divided up accordingly. Yet these spheres are not discrete. They overlap, blur, intersect, interact with, and influence each other, continuously changing their shape.

So we need to ask the question again: How is public policy crafted in India? Let us attempt the answer once more.

Policy change could be initiated by any of the players mentioned so far: a proactive politician or bureaucrat, an economic or social interest group well organized enough to have access to power, an activist judge prodding the executive to act, or a citizens' campaign that gains traction in civil society and the media. But most often, especially in matters related to economic policy, public service delivery, regulatory reform, public finance, trade, and other so-called matters of state, policy change is initiated by special interest groups acting in concert with sympathetic politicians and bureaucrats.

Things get murky thereafter. The multiplicity of stakeholders and interest groups in any matter of public concern in India means that even an apparently simple reform cannot be ensured a smooth passage through the system.[4] The special interest group initiating the policy must first lobby the politician and bureaucrat. Once convinced of its merits, the politician must negotiate with his or her fellows and convince them, in turn, that none of their constituents will be adversely affected—or if they are, that new backers will be created by the reform.

By now, those likely to be adversely affected will have caught wind of the proposed change and will begin their own sequence of lobbying and cajoling. And so the process will go back and forth, often played out in the media and occasionally the judiciary (and if mishandled, the streets), with negotiation and compromise, obfuscation and inducement, delay and distraction, all figuring in the suite of tactics that will need to be deployed.

For most reformers, the political cost is not worth the effort and energy that must be invested in this process. So the first instinct of the initiating interest group, presiding politician, and implementing bureaucrat is to introduce change by stealth.[5] Although the political class and media are suitably distracted by a religious or caste dispute, a foreign policy controversy, a business or sports scandal, or, these days, economic triumphs such as a record stock market run or the Indian takeover of a major Western firm, that is the time to quickly pass a bill in parliament or to issue an executive notification.

But even this much-favored strategy is not necessarily a guarantor of success. An alert opponent could yet intervene after the fact through parliamentary melodramatics, the media, the judiciary, or street protest. Even if the reformers withstand all this and finally manage to enshrine into policy whatever incremental change has survived, the often larger challenge of actually implementing it remains. The lower bureaucracy, adversely affected interest groups, and political opponents of the presiding politician now mobilize to stall and dilute the new policy's intended outcomes on the ground.

Lest this seem too cynical a description, I should make clear that what I am describing is a legitimate political process—of citizens collecting into common interest groups, using political tools to get the state to deliver outcomes most beneficial to themselves, and negotiating deals and compromises with opponents. (Knowledgeable students of politics would find this description trite rather than cynical.) This thorough and ultimately just process is one that I profoundly respect.

The point I am making is that because of the Indian public arena's many players, many interests, and many layers, policy making in India is always a "two steps forward, one step back," never complete, ever ongoing exercise. It is, ironically, often very undemocratic—despite the long negotiations and apparent parliamentary, judicial, and media glare (federal or state level, as the case may be)—because the multiplicity of players and layers enables the creation of huge information asymmetries. So politician-bureaucrat-commercial alliances often can get decisions made that bypass entire groups of relevant stakeholders, who remain uninformed because they are illiterate, powerless, unorganized, not consulted, misrepresented, distracted, or some combination of these.

Enter the World Bank

Into this bewildering situation, let us introduce the foreign development agency. Foreign aid, of course, is not a very big factor in the Indian economy. In 2003, for example, the government of India told a host of smaller bilateral donors to deal directly with NGOs and academic institutions instead of bothering the bureaucracy with their small change and lengthy procedures.[6] In that year, it prepaid a large portion of its bilateral and even multilateral debt. India's official assistance, therefore, comes mainly from the World Bank and Asian Development Bank, with the significant bilateral aid providers now being Japan and the U.K. Department for International Development. The federal finance ministry is the primary counterpart for these organizations, but individual projects are implemented by line ministries, state governments, local governments, and federal or state public sector corporations, as the case may be.

The World Bank is India's largest lender, and India is the Bank's biggest customer, although what the Bank provides remains peanuts for India. Bank lending was 0.36 percent of India's gross domestic product in 2005, but here we are not concerned with that macropicture in which India, like other large economies at its level of development, borrows from the Bank as an option rather than a necessity. Our interest is in the specific investment or policy loan that the Bank is invited to provide to an individual government entity and the effects of the undoubtedly disproportionate weight of the Bank within that microsphere.

According to the global best practice, the lessons learned, and the donor community's intellectual wisdom of the day, the World Bank comes with what it believes are brilliant technocratic solutions to the country's development problems. It has a solution not just for how to build a road, but for the following: (1) how to manage and maintain it as well, (2) how to run a power or water utility in a way that is both financially sound and helpful to poor communities, (3) how to manage forests in a sustainable manner that will allow tribal communities to emerge from poverty, (4) how a fiscally strapped government should balance its finances so that it is solvent yet able to invest in infrastructure and human development, and (5) so on.

The World Bank is mandated to lend to and operate only through governments—a stipulation that borrowing-country directors on its Executive Board guard most jealously. Thus, the Bank deals mostly with ministry officials. Faceless technocrats meet faceless bureaucrats. The ministry needs funding. A loan is offered, the technocratic solution is proffered, a project is designed, prepared, appraised, approved, and implemented. It should be simple. In India it isn't. Time and again, the World Bank becomes an unwitting and usually naively unknowing participant in this political process. (World Bank staff members are explicitly barred from entering the political process of borrowing countries and genuinely believe that they do not).

The pathway to this process is almost inevitable. First, there is the strictly circumscribed, bureaucrats-only dialogue that the host government insists on confining the Bank to. This dialogue is combined with the Bank's own belief in the supremacy of its solution. As a result, there is a lack of up-front, truly open-and-listening consultation with relevant stakeholders by either the Bank or the government. To practical effect, the Bank's intervention—however well meaning—becomes no different from that of any mercantile special interest group that secretively lobbies the state to initiate a favorable policy change.

World Bank staff members, who are proud development professionals sincerely dedicated to their mission of alleviating poverty, believe they have better intentions than that. But the fact is their bureaucratic gatekeepers in India and their own intellectual certitude make the Bank's initial modus operandi nontransparent. (It is not my argument that every executive decision requires a prior consultation, or every Bank-government meeting needs to be held in the open. But, as we shall see later, to be acceptable and credible, fiscal, governance, and utility reform initiatives in particular require their case to be made with the concerned stakeholders—ideally by the government—*before* they become policy.)

Then, as the Bank proposal is wrung through the Indian system in the excruciating manner described earlier, opponents of the government, detractors of the proposal, critics of the Bank, vested interests, and, eventually, of course, genuinely relevant stakeholder groups (on the basis of partial or distorted information) all belatedly sit up.

On those occasions that the proposal pertains to anything that affects conflicting interests—such as utility projects, fiscal or governance reform, forestry and water infrastructure projects, or projects with resettlement and environmental impacts—controversy follows. Motives are attributed, conspiracies are smelled, ideologies are assailed, and sovereignty is invoked. For all these groups, each with a different axe to grind, the Bank becomes a convenient whipping boy, a high-profile refractor through which to send political messages to their government. Typically, the Bank's technocrats and managers are genuinely confused as to why their perfectly logical, well-meaning solution that had poverty alleviation as its keystone should meet with such opposition.

Sometimes, though, the system responds not with controversy, but with something perhaps more frustrating and inexplicable—stubborn nonimplementation. When and why does a government refuse to implement something that it has agreed to? Is it inefficiency, low capacity, or that creature called lack of political will, whatever that might mean, that causes this to happen?

The Politics of Power Sector Reform

India had initiated liberalization reform in 1991, and by the mid-to-late 1990s, the reform arena had moved to the state level. Most of India's states were in bad fiscal shape with unsustainable deficits and bloated and inefficient public sectors, including underperforming, financially bleeding power sectors.

The government of India and the Bank had agreed that the Bank would support power sector reform as part of structural adjustment programs—as they were then called—in three states (Andhra Pradesh, Karnataka, and Uttar Pradesh) and as stand-alone operations in three others. The Bank had identified the hemorrhaging power sector as critical to fixing the states' finances. Further, it had decided that the best way to address the dysfunction in the sector would be to unbundle the monolithic state electricity boards into separate generation, transmission, and distribution entities; to privatize the distribution; to introduce regulation; to improve revenue collection through metering and antitheft measures; and to reduce the largely misdirected power subsidies that were being funneled to richer farmers in the name of the poor.

So far, so good. The unbundling occurred, and incipient regulatory regimes were introduced. But in state after state—even those led by gung-ho, reformist chief ministers—nobody moved on the agriculture subsidy issue, installing of meters, and privatization. The reform became increasingly controversial, and there were violent demonstrations in Andhra Pradesh in 2000.

One day in 2002, a visiting Bank vice president from Washington and the Bank's then lead economist for India asked if I would put together a note to explain why in all the states, even so-called reforming ones, the agriculture subsidy issue had become the common stumbling block. "Isn't it obvious that undeserving big farmers are cornering the subsidy at the expense of the small? Can't people see that a financially sound utility will allow the state to extend electricity services to the poor? Why are even reforming chief ministers hesitant to implement power reform?" they asked. I was requested to write five to eight pages, due in a month.

I was neither an expert in the power sector nor a trained political scientist. Until that point, as part of my duties as an external affairs officer, I had been providing management with periodic political updates and analyses that, for example, explained headlines, put events in perspective, examined cabinet and bureaucratic changes, and gave early warnings. These were essentially journalistic exercises—timely, concise, and episode based.

Now I had to delve into something deeper: the underlying political economy of an entire sector. I proceeded in the intuitive, deductive way a journalist would. First, I read as much background as I could—in particular, literature that was critical of the Bank program. Much of this critique was ideological and knee-jerk, and I had to use the journalist's skeptical eye to sift out the issues of substantive concern. To understand the Bank program, I read the project documents and interviewed my colleagues who had been working in the sector in the different states. Their frustration with India's seemingly incomprehensible politics was evident.

This initial research allowed me to unpack the expression "power reform" into its constituent parts, to identify the stakeholders and interest groups affected, and to list the questions that needed answering. These activities were not rocket science. Who were the people affected, one way or another, by each specific reform? What was their position on it, and why? How committed were the politicians and bureaucrats charged with implementing the reform? What motivated them one way or the other?

I now embarked on a series of interviews and informal conversations with bureaucrats, political types, farm leaders, academics, journalists, NGOs active in the sector, power industry specialists, and others in New Delhi and various states. This was not a formal research exercise but was an attempt at understanding the underlying dynamics, and so I remained the journalist—not the excited reporter thrusting microphones into people's faces, but more the measured columnist, establishing a comfort level with my interlocutors, then conversing with them, usually in off-the-record settings.

My first draft—the five to eight pages initially requested—was barely able to delineate the issues and ended up raising more questions than it answered. The three energy sector colleagues who represented the internal clients for my note provided insightful technical comments and asked me to delve deeper—that is, I got more than a month and the leeway to write 20 pages if needed.

My conversations and reading began to reveal several features:

- A lack of understanding (not only within the Bank, but also among India's own impatient, proreform elites) of the gradual style in which India undertakes reform, which is a process that is deeply reflective of its negotiation- and compromise-based political culture and processes;
- A lack of public understanding of the reform's rationale (in other words, there was no common perception of the problem to which the Bank was pushing the solution);
- The fact that "power reform" meant one thing to the Bank's technocrats and quite another to the politicians implementing it;
- The fact that most of the so-called beneficiaries of the reform had no idea that such a program was being carried out in their name;
- The reality that the villainous big farmers who were hogging all the subsidies had some serious problems of their own, including the fact that they were "big" only relatively;
- The understanding that the big farm constituency was politically a holy cow; and
- The fact that the entry point to tackling the subsidy issue lay not in the power sector but possibly in the water and credit areas, which were at the root of the farmers' insecurities.

I finally completed my 26-page paper in early 2003. It was an unpretentious, empirical piece that explained India's peculiar reform method, pointed out the weaknesses in the power reform program that had led to the "lack of political will" my colleagues had found so frustrating, identified the key stakeholders and their concerns, and suggested openings and opportunities that reformers could pursue on the basis of these insights. In essence, my analysis made a very simple and, in retrospect, obvious point: that a technocratic solution alone did not make a reform program. To be politically feasible, reform had to be based, first, on stakeholder ownership of the problem, and then in negotiated solutions that addressed the genuine concerns of all interest groups, both poor and elite.

To my surprise, there was a large audience for the paper and its observations among my operational colleagues. No more than an informal, internal note (http://siteresources.worldbank.org/EXTDEVCOMMENG/Resources/finalpowersectorindiaebook.pdf),[7] it was sent to an initial distribution of about 20 Bank colleagues who worked on India, but it gained a life of its own as people forwarded it to others in different parts of the Bank working in a range of sectors. Several members of the team working on the 2004 World Development Report (WDR) on service delivery,[8] one of the first major Bank reports to speak openly of the role of politics, were enthusiastic readers, for example, and a brown-bag seminar I addressed at the Bank's Washington headquarters in April 2003 drew a standing-room-only crowd.

Most important, the paper influenced the thinking of the Bank's South Asia energy sector management. Four years after writing it, I was told by the Bank's incumbent energy sector manager for South Asia:

> Your work on the political economy of power sector reforms has informed—and continues to inform—our re-engagement strategy on the power sector at the state level. Specifically, our focus is much more on the systems of accountability and efficiency, and less on eliminating subsidies, even mistargeted ones. On subsidies for power supply for agriculture, our focus is on improving the accountability of such subsidy flows and giving the farmer more bang for the subsidy buck, including by improving the quality of subsidized power supply.[9]

This was a time when "political economy" was becoming a buzzword within the Bank. The 2004 WDR put the *p*-word at the center of the discourse; within the Bank's India program, my work on the power sector succeeded in doing the same. Colleagues from different sectors now asked for similar inputs: some short and "just in time," others more comprehensive and detailed. If my power sector note constituted a midstream analysis of political economy factors that were affecting the implementation of a sector-wide reform operation, the four notes I will now describe were different creatures. One took a very upstream look at potential risks to a specific project; the second was a broad, state-level sweep of risks and opportunities pertaining to a multisector reform program; the third—a background piece for an analytic report—summarized and drew lessons from the roller coaster political careers of three reforming politicians; and the last was an internally contested post mortem of a controversial water reform project from which the Bank had to withdraw.

Analyzing Political Risk

The forestry sector has always been a complicated one in India. Indigenous communities, grassroots activist groups, left-wing insurgents, timber mafias, commercial mining interests, wildlife and conservation enthusiasts, low-capacity forest departments, competing social and tribal welfare departments, rivalry between the Indian forest service and administrative service, colonial era land laws, intricate litigation, conflicting federal and state environmental legislation, overlapping jurisdictions of local governments and traditional community leaderships, and local political and power elites present a web of competing issues and interests. This is especially the case in the underdeveloped, forested, tribal, and mineral-rich state of Jharkhand.

The Bank was not new to this sector in India but had recently come away from a bad experience in the state of Madhya Pradesh, where it had become the target of bitter activist groups. Determined to get it right in Jharkhand when asked to prepare a participatory forestry management project in 2002, the Bank's task leaders introduced the concepts of communication and consultation very early in their dialogue with their state forest department counterparts.

Refreshingly, they began reaching out to the somewhat bemused local civil society and activist groups while the project was still in a concept stage.

I had played a role in initiating these contacts when, in October 2003, the task leader asked me for a note that would identify the main players and issues in the forestry sector in the state, their likely impact on the proposed project, and the risks and opportunities for the Bank and asked me to suggest a risk management strategy.

I proceeded as I had done for the power sector note, with the difference that now I was working on a future operation instead of an ongoing one. I met with knowledgeable and representative individuals in Delhi and Jharkhand, and I collected further material through a reading of relevant literature and through group interactions and interviews with stakeholder representatives afforded by my participation in Bank missions and workshops associated with the project.

To make a long story short (although the reverse is what occurred!), what was expected to be a brief 15-page delineation of issues ended up as more than 50 pages because of the range of factors that emerged and had to be flagged and analyzed. I divided the note, which was completed in January 2005, into three sections: a historical and political background of the newly created state that provided the context in which the project was to be set, a description of stakeholders and issues that have a direct influence on the Jharkhand forest sector and would have similar influence on the proposed project, and a summary of the risks identified in the first two sections with suggested mitigation measures. (The key suggestion was that the project should not be overdesigned, but should allow leeway for implementation and community participation arrangements to vary in sync with the local variations in social, legal, and governance situations.)

Because of the sensitivity of its contents, the note had a very restricted circulation within the Bank's project team and South Asia forestry sector management. In the end, the project did not go through because of other problems that were beyond its scope, but the note served a useful purpose while the team was active. Although any experienced forestry specialist would have been familiar with the issues it outlined, its value, from an operational point of view, lay in its "synthesizing the issues, organizing thoughts, and inducing objective and realistic expectations" (as a member of the Bank's Jharkhand forestry task team told me).

Simultaneously, another team at the Bank had me working on a paper on the neighboring backward state of Orissa, where an ambitious, multisector reform program was to be supported by a series of Bank development policy loans. The terms of reference for this note were sweeping: examine who within Orissa society stood to lose from the reforms and who stood to gain; what the motive force behind the reform program was at the time and what the chances were of reforms being sustained; how reforms should be sequenced; and how issues of caste politics, elite capture, and social equity could be addressed. According to the answers to these questions, the note was to look at the political feasibility of some of the major proposed reform actions—particularly with respect to the election cycle—and to suggest key ingredients for a risk mitigation strategy.

Drawing on my by-now familiar journalistic style of inquiry, the note evolved in three stages: first, in March 2003, a short version titled “An Introduction to the Political Economy of Orissa,” which provided a background to the nature of Orissa society and politics, was placed in circulation among the World Bank and the U.K. Department for International Development (DFID) Orissa teams. (DFID was a Bank partner in the Orissa operation.) Then, in February 2004, a first draft of the complete note was submitted. A final, revised version followed in May 2005 after allowing for intervening state elections and bureaucratic changes.

In the introduction, I explained that in the course of collecting the material, both at the time of the 2004 draft and even 15 months later during the final revision, a general lack of awareness and ownership in Orissa of the proposed reform program was apparent. Therefore, the paramount question was the second one, on the program’s “motive force” and sustainability. The note primarily focused on this issue and embedded an assessment of the state’s leadership in a broader contextual analysis of its political structure and culture.

The other objectives—how to identify winners and losers, how reforms should be sequenced, how to address issues of elite capture, and so on—which were issues of implementation and detail, were addressed in a preliminary manner. I broadly outlined the main players and potential sticking points in each sector and proposed a consultation framework that could guide reform champions in their negotiations with stakeholders.

Like the Jharkhand forestry note, this paper had very restricted circulation confined to the task team leadership and sector management. It motivated the Bank team and its counterparts in DFID and the Orissa government, however, to introduce the notion of strategic communication in the reform program. This is now an ongoing operation. I have since moved on, so I am not qualified to comment on how this has actually worked on the ground, but its inclusion in the agenda was a breakthrough in itself.

My next task was probably the most exciting to carry out. I was asked by this lead author of a report on reforming India’s public services to examine this question: “When does service delivery reform become politically sustainable?” I was to do this in the light of resounding election defeats suffered by three reforming state chief ministers during 2003–04. I was expressly told to be the journalist: interview the ministers and the people around them; then simply tell their story and draw out the lessons learned.

I thoroughly enjoyed the interview and information-gathering process as any journalist would when given such a juicy assignment—with a generous deadline and no word limit. I began the paper with a contextual analysis of the expectations that Indian voters have of their politicians and of the factors that generally determine Indian election results. I then selected a specific reform that each chief minister had been identified with; reconstructed, through the interviews, the process by which they had been initiated and implemented; and assessed whether the reforms would survive the demise of the politician.

In the final section, I culled out the common features in the external circumstances and leadership styles of the three politicians. I then drew the lessons that could make a reform sustainable—that is, outlive its political progenitor. My conclusion, in a nutshell, was that, to be sustainable, a reform required five distinct ingredients: a politician to initiate it and provide backing, bureaucratic champions to implement the idea and manage the process, internalization of the changes by the department concerned, co-option or isolation of potential opponents, and creation of interest groups with a stake in the new system.

This draft paper greatly informed the lead author of the report on service delivery,[10] but like the Jharkhand and Orissa notes, it remained confined to a very restricted readership list because of its overtly political content. I was not even required to revise it into a final form.

Last, I will mention an informal note I wrote for the Bank's South Asia regional management looking back at the Delhi Jal (water) Board (DJB) controversy of 2005. DJB, a government-owned monopolistic utility, provides middle-class areas of the city with intermittent, low-quality water—hardly any to slum areas—despite an overall, adequate supply of raw water. The Bank had been in discussion with the Delhi government since 1998 for a possible water reform operation, and the regional management approved the concept of what was officially called the Delhi Water Supply and Sewerage Project in early 2005.

The project, which sought to address the challenge of providing Delhi with an affordable, sustainable, and reliable water service by an efficient provider, was embedded in the reform principle of enforcing accountability by separating the roles of the policy maker, owner, and manager, and of creating transparent contractual relationships among them. It had five components: a 24/7 water distribution pilot in two zones of Delhi through a management contract to a private operator, investments in the trunk sewer network, special services to the poor, organizational strengthening of DJB, and preparation of a rollout plan for the entire city.

Controversy arose in July 2005 when a local NGO accused the Bank of unduly influencing the selection of the project consultant. The NGO then ran a skillful campaign—targeting opinion makers, political influencers, and middle-class residents—centered on four issues: the "privatization," and especially the entry of foreign companies; the fears about tariff hikes; the Bank's role, and the alleged worldwide failure of the model it was "imposing"; and the lack of transparency and consultation.

DJB and the government of Delhi failed to counter this campaign, even though much of it was riddled with easily met factual and logical inaccuracies. In essence, the campaign was based on a single PowerPoint presentation; it could have been picked apart slide by slide, point by point. But the government failed to do this, although the presentation floated around in the public domain for months. The Bank could defend itself only through the media because it clearly could not enter the ground-level political battle. In November, the Delhi government, which was facing other political pressures at the time, decided it no longer wanted the Bank loan.

My note—an entirely personal and unofficial take on the situation, written in December 2005—looked at the questions of the project's political timing, quality of the Bank's and DJB's consultation effort, and reasons for DJB's communication failures. It then addressed the larger questions of the challenge of transparency raised by India's new Right to Information Act: how committed the client really was to this particular reform model, whether enough groundwork had been done to build a public climate for urban water utility reform in India, and whether the Bank should have been more aggressive about defending its position instead of leaving it to DJB.

This note received a mixed reception within the Bank—upsetting some colleagues who felt it was misinformed, but welcomed by others. Perhaps it had been written too soon after the events it described. Two years later, however, the points made in the note are beginning to be debated internally, especially as by now a couple of (as yet unpublished) academic case studies of the Delhi water project are in circulation.

The fundamental question raised by my note, although not stated so baldly, was this: "If the Bank had done an upstream political risk analysis, would it still have gone ahead with the project?" Or might it have first informed the public sphere with analysis about the unsustainable water situation in Delhi, and provoked a debate about the various available reform options?

Looking Back: What I Did and Its Value

I believe the basic value of all these analyses lay in the reality check that they provided my colleagues. Through my inputs, based on local knowledge, they were able to get a sense of the lay of the land, its topography and meteorology so to speak, including an awareness of how the Bank's entry itself affected the dynamics within this landscape. This knowledge enabled them to be more sensitive, flexible, informed, and confident as they went about meeting their interlocutors and designing their programs.

I think the most important questions I asked as I did my field work were "why" and "what motivates." The answers to these questions were what revealed the concerns, fears, hopes, and interests, or what my economist friends would collectively term the incentives, of each stakeholder group. Understanding the incentives brought to life and made comprehensible abstractions like "beneficiaries," "project-affected persons," "civil society," "stakeholders," "reform champions," and similar ones that populate Bank operational documents. This understanding, in turn, made evident the futility of hinging the success of any reform program on a single champion, as well as the necessity of consultation and communication. In sum, my colleagues were better able to appreciate the "feasibility gap" between a theoretical reform concept and what could realistically be accepted and implemented in a given set of circumstances.

I should clarify that my papers—fresh and unprecedented though they might have been—were marginal inputs to the particular operations they supported. Beyond improving the understanding—in the manner described earlier—of the individual colleagues who happened to have access to them, I make no claim to having changed the way the Bank did its business in India or to having contributed to any significant quality impacts in these specific operations. I am not being modest or pessimistic but am pointing to the realistic limitations of such work.

First, with the exception of the power sector paper, the notes remained confidential inputs to the individual task team leaders who commissioned them. This input reflects the tricky question that such overtly political analysis poses for the Bank, which is mandated to remain politically disinterested in the countries in which it operates, yet whose work, if it is to be feasible and locally sensitive, requires that it have a nuanced understanding of the local political economy. In the absence of an institutionalized mechanism in the Bank to absorb political intelligence, my effort was no more than a discrete, random, and transient one that quietly occurred in one corner of the institution at the initiative of the individuals who sought my services.

Second, understanding the local political economy is one thing. Finding a creative way to respond to it—through operation design, timing, and sequence—is another. Convincing the players in the system—primarily government counterparts—to undertake the necessary consultation, communication, and transparency measures required to engage with stakeholders is almost impossible.

A caveat here is that communication and consultation in themselves are not a quick fix that will preempt or eliminate problems. They are merely instruments. If deployed well, they can help build allies; channel useful inputs on design, timing, and sequence; create iterative feedback loops; and prevent disinformation from seizing the day. If poorly executed or reduced to cosmetic public relations, they can boomerang. This problem raises two questions that require separate discussion: one, who "owns" the reform—the government, which is the sovereign, or the Bank, which introduced the idea? And, two, to be meaningful, how far upstream in the life cycle of a project or a reform idea should stakeholder engagement begin, and who—government or donor—should provide the resources necessary to conduct a sustained dialogue?

Conclusion: Some Thoughts on Methodology

The formal literature on the political economy of reform derives certain conclusions on aspects of reform feasibility, and political and institutional processes, but only after rigorous analysis. In contrast, as is obvious from my descriptions, my rather unsophisticated methodology was invented as I went along. Perhaps the value of this approach—what economists call "casual empiricism"—lay precisely in the fact that it was spontaneous, thereby allowing me to drill down into specific locales, and if calling spades by their given name, to indicate when emperors had no clothes, and to point to elephants in rooms.

My information-gathering process, it is clear, entailed identifying an appropriate set of interlocutors using preliminary research and then asking them pertinent questions through conversational interviews. If I take a step back to see how I was organizing myself, this general mental checklist guided my inquiries:[11]

- Understanding the overall political context of the specific location, including party profiles and policies, current hot issues, chronic issues, and the local election cycle
- Identifying the key individuals in the decision-making structure—political, bureaucratic, and nonofficial—and their politics
- Assessing the overall capacity and quality of the bureaucracy
- Against this backdrop, looking at the implementing agency—individual counterparts as well as general staff—for its commitment to the operation, and its ability to relate to stakeholders
- Identifying relevant civil society opinion leaders, their role, and likely responses
- Investigating the presence or absence of critics and activists in the project location and sector (in the sector case: local, national, and international) and assessing the substance of their arguments and likely tactics
- Assessing the interests of local-level political and power elites in the project area
- Identifying the project stakeholder groups; their relationships with the state as a whole and with the implementing agency in particular, as well as with each other; and their traditional political behaviors
- Assessing the media environment
- Assessing the salience of the Bank's or donor's own reputation in the specific context
- Looking out for other issues particular to the project location and sector.

The last point—other issues—is not a throwaway one. It is this search for the particular that ensured my work was not formulaic, but was reflective of the specifics of each case. Further, the entire checklist does not come into play in every case, but permutations of it does, depending on the scope of the analysis being attempted and the stage at which the operation stands. Finally, when this information is gathered, not all of it needs to go into the final report. Much of it is for background to inform and provide perspective to the analysis. One must come to conclusions about what is of relevance to the decisions that management must make, must be up front with those statements, and must then marshal the data to back them.

In hindsight, I feel there is scope to add further value even when the approach is as informal as mine. On this point, I could categorize my work—the notes described here, as well as the numerous smaller ones I did—into four distinct categories: political updates, political backgrounders, political economy analyses, and political risk assessments. The first three are self-explanatory. The last requires some thought: what do we mean by political risk, and political risk for whom?

In the private sector, a well-established practice of political risk analysis has evolved since the 1970s, primarily to serve Western corporations intending to invest in poor and emerging economies. Associated with it is an entire branch of the insurance industry devoted to political risk coverage. This branch is led by, among others, the World Bank Group subsidiary the Multilateral Investment Guarantee Agency, which provides coverage to encourage foreign direct investment in poor countries that otherwise would find it difficult to attract investors. Political risk, in this context, largely means governmental actions or other noncommercial, noneconomic events beyond the control of the investing firm that can affect the profitability of its investment. The risks can range from political instability in the country to violence, war, and insurgency and, to the expropriation of assets or outright nationalization.

Analysts in this field assess the probability of occurrence of each risk and the severity of the impact of that occurrence on the firm's operations. The product of probability and severity enables them to put a number to the level of risk, which the firm's management and insurer can then factor into their investment decision. Several specialized political risk-rating agencies have emerged as leaders in this field and publish regular country political risk ratings. In a related field, firms that rate sovereign debt also factor in political risk calculations. The attempt in most cases is somehow to translate the subjectivity of political analysis into the cool objectivity of a number. The numbers these analysts and firms provide are relative measures, which serve the useful purpose of helping insurers price their products and investors compare potential destinations. But other than being comparative snapshots in time, they have limitations.

As there is no comprehensive theory of political risk, each of those agencies has identified a fixed set of parameters, developed its own technique of assessing risks (ranging from statistical probabilities to subjective probabilities to regression analyses to subjective scores assigned by experts), and then has contrived a formula to transform the parameters into an overall figure. This is not the place to discuss the approach, but three points are clear: the raw data behind the numbers in most cases originate from subjective assessments, clients of those agencies must use their own judgment to rank the risks in a way relevant to their firm's unique business strategy and situation, and these numbers cannot anticipate or provide guidance when an actual crisis occurs on the ground. Thus, even in the quantitative world of international business, political risk assessment and management, at its heart, remains empirical and very much a function of the knowledge, intuition, skills, and judgment of individuals.

So how does this apply to the work of the World Bank (or any development project, for that matter)? It does in two ways: first, there is a cue to be taken from the private sector's sensitivity to political risk and, second, in this there is a role, as we have just seen, for empirical assessment.

Judging from the value of my analyses to the operational colleagues who commissioned them, I believe all development and reform projects should systematically be informed by "journalistic" political risk assessments. I define political (that is, nontechnical, noneconomic) risk here not as one that affects profitability, but as one that could affect the *intended development outcome* of the intervention—which is exactly what my colleagues had in mind when they sought my help.

I contend that, unlike a profit-motivated commercial project seeking to insure itself against events beyond its control, "political risk" in a development project is largely in the control of the "investor"—because the risk can be minimized by evolving the proposed development outcome into a *choice* that most stakeholders can agree on (rather than the imposition it often becomes). Thus, I believe that if donor agency/development banks *and government decision makers* are put into the habit of assessing political risk (as I define it above) early in the life cycle of a development or reform operation, they will be forced to examine the viability of their own ideas and to become more consultative and inclusive in designing their project concepts and reform formulations.

Assessing risk is only one part of the process, of course; managing it follows. So the process as a whole has four stages: doing the analysis, receiving and interpreting it, devising a response, and acting on it. As my experience shows, an institutionalized system that encompasses this entire process has yet to emerge in the development community. My efforts during my service in the Bank's India office began at this starting point: to provide frank, empirical, political analysis that combined an external perspective with an insider's understanding of what was relevant to the particular operation.

Notes

1. The views expressed here are the author's alone and should not be attributed to the World Bank, any unit within it, its affiliated organizations, members of its Board, or the countries they represent. I am grateful to Adesinaola (Sina) Odugbemi for encouraging me to write this piece; to Rohitashya Chattopadhyay for research and other invaluable assistance; and to Shanta Devarajan, Dale Lautenbach, Brian Levy, and Edith Wilson for their comments on an earlier draft. Before joining the World Bank, I held senior editorial positions in leading Indian newspapers such as the *Telegraph,* the *Pioneer,* and the *Hindustan Times.*

2. I am obliged for the term *argumentative society* to the title of Amartya Sen's *The Argumentative Indian: Writings on Indian History, Culture and Identity* (New York: Farrar, Straus and Giroux, 2005).
3. In 2006, the backlog in subordinate courts and state high courts was 24.8 million cases and 3.65 million cases, respectively. Reported in the *Times of India,* November 30, 2007. See http://egovindia.wordpress.com/2007/11/30/judiciary-equally-to-blame-for-backlog.
4. A rough definition of stakeholder as used in this essay would be as follows: individuals and groups who are affected by, or can affect, a given development project or operation.
5. The classic account of why Indian reformers prefer this strategy is in Rob Jenkins, *Democratic Politics and Economic Reform in India* (Cambridge, U.K.: Cambridge University Press, 1999).
6. In 2005, the government of India refined its guidelines to accept bilateral assistance only from the G-8 countries and the European Commission. Bilateral aid from other European Union countries is accepted only if the annual program is more than $25 million and from others if it is in the form of technical assistance to build skills of Indians or if it is channeled through a multilateral agency project.
7. It has subsequently been published. See S. Lal, *Can Good Economics Ever Be Good Politics? Case Study of India's Power Sector,* Working Paper 83, World Bank, Washington, DC, 2006. A shorter version under the same title was published in the *Economic and Political Weekly* 40 (7) (Mumbai, February 12, 2005).
8. http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTRESEARCH/EXTWDRS/EXTWDR2004/0,,menuPK:477704~pagePK:64167702~piPK:64167676~theSitePK:477688,00.html.
9. E-mail to the author, April 2007.
10. http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2006/03/27/ 000012009_20060327084642/Rendered/PDF/350410rev0IN.pdf.
11. This checklist is relevant for World Bank or donor-funded operations being executed through government agencies.