

Poverty In Focus

Number 14, April 2008

International Poverty Centre



PSIA

Gauging Poverty Impacts

FROM THE EDITOR

Poverty in Focus is a regular publication of the **International Poverty Centre (IPC)**. Its purpose is to present the results of research on poverty and inequality in the developing world. Support is provided by the Swedish International Development Cooperation Agency (Sida).

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Front page: The villagers of Prey Speu, Cambodia proudly display their new land title certificates. The implementation of the land reform was preceded by a PSIA with social analysis that led to adjustments in the reform design, creating higher commitment among key stakeholders, including NGOs, to support the reform. Photo: © World Bank.

Editor's note: IPC is grateful for the support of this issue from Renate Kirsch, the World Bank, both as editorial planning consultant and (co-)author of several articles. Thanks also to all the authors for generously contributing their intellectual products without any monetary remuneration. The editor takes full responsibility for all headings, captions, marginal texts and highlights.

IPC is a joint project between the United Nations Development Programme and Brazil to promote South-South Cooperation on applied poverty research. It specialises in analysing poverty and inequality and offering research-based policy recommendations on how to reduce them. IPC is directly linked to the Poverty Group of the Bureau for Development Policy, UNDP and the Brazilian Government's Institute for Applied Economic Research (IPEA).

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Poverty and Social Impact Analysis (PSIA) and Poverty Impact Assessment (PIA) are recently developed tool kits for analysing the distributional impacts of policies, programmes and projects on the wellbeing of the population, with particular focus on the poor and vulnerable. Both approaches provide a comprehensive framework for analysis while drawing on a wide range of well established approaches and tools covering economic, social, political and institutional issues.

PSIA involves rigorous in-depth analysis of complex policy reform processes and promotes evidence-based policy choices and dialogue on reform options. PIA is a 'lighter' approach focused on decisions concerning development projects and programmes, while also useful for fostering debate and planning for development results, including in the private sector.

The International Poverty Centre (IPC) is administering a joint UNDP-World Bank Project on PSIA with a Senior Social Development Specialist from the World Bank Core PSIA Team as counterpart. The general objective is to promote capacities in developing countries for analytical work on the impact of national policies and use these results to influence poverty reduction strategies. This involves adjusting policy design in light of the impact of policies on poor women and men, and providing evidence to inform national policy dialogue.

This issue of *Poverty in Focus* highlights the PSIA and PIA concepts and the experience so far of using these analytical tools for enhancing policy, programme and project effectiveness in reducing poverty.

Elke Kasmann, *Solveig Bühl* and *Renate Kirsch* introduce the PSIA and PIA concepts and their respective components and transmission channel analysis.

Renate Kirsch adopts a social lens to policy analysis, focusing on how the structure of societies and institutional mechanisms influence the reform process.

E. Gacitua-Mario, *C. Gros* and *R. Kirsch* underscore the key role of stakeholder power and policy dialogue emerging from a set of agricultural reform case studies.

Nils Junge stresses the importance of a process approach to PSIA, involving adversarial groups in joint studies and negotiations on restructuring mines without social conflict.

Sabine Beddies and *Jeremy Holland* choose the 'political economy of reform' angle to explain how political actors, institutions and economic processes influence each other.

Sabine Beddies et al. illustrate the use of power mapping as a PSIA tool to predict stakeholder support, opposition and influence on the implementation of water reform in Yemen.

Elke Kasmann discusses the lessons of the German aid agency GTZ in applying PSIA from a governance perspective, promoting stakeholder participation in policy making.

Alwin Nijholt reports on three PSIAs in Malawi that all led to more pro-poor policy designs and led the Government to institutionalise PSIA as a basis for policy making.

Kate Bird summarises a DFID review of staff experience of the effectiveness of using PSIA for evidence-based, participatory, pro-poor policy making.

Elizabeth Stuart recaps a critical NGO review of PSIA practices that finds the process lacking and too late to feed into the design of reform policies.

Ibrahima Dia and *Kerstin Meyer* recount the experience of Senegal's first PIA that proved a perfect basis for discussing key issues and assessing poverty impacts of a major industrialisation project.

Sheri Willoughby describes how PIA was used to study the impacts of four businesses geared towards the 'base of the pyramid' markets for the unmet needs of poor people.

This collection of articles is meant to contribute to a better understanding of the emerging analytical and process management tools of PSIA and PIA, and thus contributing to more effective policy design and implementation for poverty reduction results.

Dag Ehrenpreis

PSIA and PIA: Gauging Poverty Impacts for Effective Results

by Elke Kasmann¹, Solveig Buhl²
and Renate Kirsch³

Poverty and Social Impact

Analysis (PSIA) and Poverty Impact Assessment (PIA) are recently developed tool kits for analysing the distributional impacts of policies, programmes and projects on the well-being of the population, especially on the poor. PSIA involves rigorous in depth analysis of complex policy reform processes, while PIA is a 'lighter' approach focused on decisions concerning development projects and programmes.

Both approaches inform decision-makers on strategic choices during the design and implementation of development interventions and help to identify mitigating measures when negative poverty impacts are anticipated. This facilitates more evidence-based decision-making and implementation of policies and programmes. PIA and PSIA are thus valuable approaches to operationalise important aspects of the management for results agenda of the 'Paris Declaration on Aid Effectiveness'.

This article discusses the basic characteristics of the PSIA and PIA approaches, their analytical building blocks, their potential influence on the political process, their contributions to the Paris Declaration and the challenges they face.

Both PSIA and PIA can be applied *ex ante* to assess the impacts which can be expected from planned reforms and programmes. Hence, they have the ability to open up space for different options, support the design of mitigating measures and modifications, and assist decision makers in choosing the solutions which fit best. Both can also be applied during the implementation of a reform or programme and thus support monitoring progress against set indicators, adjusting or fine-tuning operations, and identifying opportunities for policy reforms. They are also useful for *ex-post* evaluation purposes.

Both approaches involve participatory processes to forge common understanding and an open and informed dialogue on development issues, which can enhance ownership and create momentum for action.

PSIA has been developed by the World Bank and development partners—especially bilateral aid agencies. It is applied to analyse policy reforms comprising macroeconomic, structural and sector policies that are under consideration in partner countries.

PIA has been developed by bilateral donors within the task team on poverty impact assessment of the OECD Development Assistance Committee (DAC) and aims at informing operations at project and programme level and at facilitating greater harmonisation in donors' assessment procedures. PSIA often requires a considerable effort of specific data collection for thorough social, political and economic analysis comprising a whole range of quantitative and qualitative tools including micro- and macroeconomic modelling. As a less resource intensive version, PIA draws predominantly on existing data and analyses. It provides an estimation of effects and a quick overview.

The main difference between PSIA and PIA is the level of intervention they address which has implications for the depth and scope of analysis. Thus, the approaches differ substantially regarding their time and resource requirements. The limited additional data collection and analysis allows a PIA to be finalised in about 2-3 weeks and to cost on average \$15.000-40.000, compared to a PSIA which usually needs between 6-18 months and costs \$50.000-150.000.

These different time and resource requirements reflect the different scope of

PSIA and PIA are tools for analysing the distributional impacts of policies, programmes and projects on the well-being of especially poor women and men.

They can be applied *ex ante* to assess the expected impacts as well as *ex post* for evaluation purposes.

The main difference between PSIA and PIA is the level of intervention which has implications for the scope of the analysis and for the required time and resources.

The core of both approaches is the analytical framework of the 'transmission channels' through which the impact of measures is traced through different social groups and households.

1. German Agency for Technical Co-operation (GTZ);
2. Organisation for Economic Co-operation and Development (OECD);
3. The World Bank.

analysis needed to gauge the various potential poverty impacts of development interventions. For example, the impact of a specific project or programme is usually more confined and smaller than the impact of broad policy reforms which may affect a whole country, e.g. tax reform. Therefore, a rough assessment often provides sufficient information for decisions about the former kind of interventions, while policy reforms usually need to be informed by more comprehensive analysis to capture the full extent of impacts.

These differences regarding time and resources have implications for the process of conducting a PIA or PSIA. The timeframe of 2-3 weeks for conducting a PIA necessarily implies a much shorter process of dialogue and consultation than the 6-18 months period for a PSIA which should include considerable time to engage with the key stakeholders during the whole process.

A specific feature of the PIA approach is the provision of standardised formats, based on a set of pre-defined matrices, to summarise the results of each module or element of the analysis. This facilitates an easy access and reference to the results of analysis and a comparison of programmes.

However, the described differences mark two ends of a continuum rather than a fundamental divide. The type of data and analysis required depends on the availability of time, data, funds, capacities and—first and foremost—on the research questions under study. PIAs could involve new data collection while PSIAs have been done with existing data only.

Both PSIA and PIA provide a comprehensive framework for analysis while drawing on a wide range of well established approaches and tools covering economic, social, political and institutional issues. Thus, both are equipped to shed light on the impacts of programmes and reforms as well as on the likelihood of their success in view of the existing institutional capacities and political constraints.

The centre-piece of both approaches is the analytical framework of ‘transmission channels’. It delineates the most important

mechanisms through which changes induced by development interventions and reforms affect the well-being of different social groups at household level. This helps to trace the impact chain of development interventions systematically. Six key transmission channels are used for the analysis:

- **Prices:** production, consumption, wages;
- **Employment:** formal and informal, including self employment;
- **Transfers and Taxes:** private and public;
- **Access:** to private and public goods and services,
- **Assets:** human, physical, social, financial, natural; levels/values and returns;
- **Authority:** formal and informal power relations and structures.

Interventions are usually transmitted through several channels. Not all social groups are affected by the changes in the same manner or with the same intensity. An intervention may result in both negative and positive impacts through different channels, e.g. improving the access to health services for poor communities and at the same time lowering disposable income by increasing fees for health services (price channel). Also the time horizon is important: an intervention can have a short term negative effect but a positive impact in the long run.

Both approaches use a series of similar analytical building blocks. The key steps are the following:

- **Identifying stakeholders:** those who are affected positively and negatively—winners and losers—and those influential groups and actors who can influence decision-making and implementation.
- **Understanding the transmission channels:** modelling the major impact chains of the intervention through the six channels.
- **Assessing institutions:** to what extent the envisaged impacts can be realized in view of the capacities and other constraints of involved institutions and organisations.
- **Analysing impacts:** the expected effects—whether intended or not—at

the micro-level and their distribution across social groups. Impact analysis can use a wide variety of tools for economic and social analysis. The choice depends on the data available, timeframes, local capacities for analysis and the importance of indirect impacts expected from a reform.

- **Assessing risks:** to anticipate and avoid unintended consequences. Risks can arise from certain country contexts such as political instability, social tensions, political economy or institutional weaknesses. They can also be exogenous such as natural disasters or regional economic crises.

In addition to these analytical steps, PIA includes an assessment of the socio-cultural and political dimensions of well-being. It looks specifically at the impacts the intervention has on the capabilities of individuals or social groups. It also gives a rough estimation of the potential impact on MDGs and other strategic goals.

For PSIA, a mainstreaming process within the World Bank’s operations has started. Poverty and social impacts of policy reforms are usually addressed during the preparation of a budget support operation, so-called development policy lending. Since 2004, Bank operational policy on development policy lending (OP 8.60) requires task teams to report on poverty and social impacts in the loan document. OECD/DAC has developed PIA more recently (2006).

However, to ensure that the evidence produced is being used, both approaches need to feed into decision-making and policy processes in donor and partner countries. The process of how PIA and PSIA are conducted is crucial for their effectiveness and needs to go beyond providing reports. Experiences so far show that the following institutional and process issues have to be addressed:

- The analysis needs to be embedded in **the policy cycles** of partner countries and donors. The timing for conducting a PSIA or PIA needs to be right. They need to take place early enough to feed into the debate and actual decision-making.
- The selection of reforms, programmes and specific **topics and questions to**

study has to be done in a consultative and transparent manner. This builds the foundation for ownership and potential impact on policy or programme formulation.

- The analysis needs a solid **institutional anchoring**. PSIA and PIAs have to be commissioned and facilitated by relevant players in the policy process to ensure that the results are used in decision-making.
- A good strategy for **dialogue and communication** at all stages is essential to encourage broad participation and ownership for the results.

The actual influence of PSIA and PIA on decision-making has not yet been thoroughly evaluated. However, there are examples where governments or donor agencies have changed their positions on important issues during

a PIA or PSIA process, e.g. where development partners identified ways to move forward with a reform process or where the process helped to build trust among the government and civil society partners.

PSIA and PIA support the Paris Declaration process (see *Poverty in Focus* No. 12, p. 26) in various ways:

1. They are powerful approaches to improve **management for results**. They provide evidence—data and analysis—on economic and social impacts of development interventions. PIA and PSIA assist decision makers to identify options most likely contributing to pro-poor outcomes.
2. They support the **harmonisation** of development assistance by providing

a common approach for *ex ante* poverty and social impact analysis. They use analytical frameworks endorsed by the World Bank and the DAC, thus enhancing collaboration and more joint analytic work of donors.

3. They initiate and contribute to political processes which nurture mutual and domestic **accountability** of donors, partner country governments and other local stakeholders. The experience with PSIA suggests that a well designed and managed PSIA process can contribute substantially to bringing a broad range of development partners into the debate about policies, thus supporting a more transparent and inclusive policy process.

The PSIA approach was introduced in 2001. Since then, about 150 PSIA have been conducted, providing a wealth of experience. Guidelines for PSIA analysis in a variety of specific sectors have been developed and tools for social, political and institutional analysis have been compiled. Experience has shown that rigorous analysis is necessary but not sufficient, and that the way PSIA is embedded into the policy process is an equally critical factor for supporting pro-poor policies. In this line of thinking a second new focus has been added: developing capacity for this type of approach in partner countries in order to enable national stakeholders to undertake this type of analysis and to inform the policy debate.

Because it is newer, applications of PIA are still limited, and OECD/DAC recommends scaling up application of PIA. Equally, it was realised that partner countries' participation and ownership need to be addressed. Issues on process design and local capacity development will need to be tackled.

Further application, capacity development and process orientation could anchor PSIA and PIA as powerful approaches to promote a more transparent and inclusive policy process, nurturing accountability and results-orientation, and improving the poverty reduction outcomes of reforms, programmes and projects.

■ <http://www.worldbank.org/psia/> and www.oecd.org/dac/poverty/. @

Comparing PIA and PSIA

Aspect	PIA	PSIA
Objective	Analysing distributional impacts	
Level of application	Focus on projects, programmes, possibly SWAPs and policy reforms	Focus on policy reforms—macroeconomic, structural and sectoral reforms
Time frame and participation	1-3 weeks; ideally conducted as iterative, participatory process	6-18 months; usually conducted as iterative, participatory process
Data collection and analysis	Mainly use of existing data (qualitative and quantitative)	Existing data and data collection (qualitative and quantitative)
Use of Matrices	Use of five summary matrices	Recommended but not compulsory
Timing	Strong focus on <i>ex ante</i> ; can also be used during and after implementation	
Assessment areas		
Impacts	Short term and medium term, direct and indirect impacts along results chain	Short term, medium and long term, direct and indirect impacts along results chain
Stakeholders/Institutions	Groups that may be affected and groups that may affect; Formal and informal institutions	
Transmission channels	6 transmission channels	
Risks	Are considered	
Capabilities	Outcome on five capabilities (OECD/DAC)	Not explicitly included
MDGs	Impacts on MDGs and other national development goals	Not explicitly included
Poverty situation and PRS	Part of the structure of PIA-reports	Not structural part of PSIA-report; usually considered in LIC PSIA
Mitigating measures	Suggested in case of potential negative impacts of intervention, particularly when on poor or vulnerable people	
Costs of intervention	No	Yes
M&E needs	Identification of key areas for monitoring and evaluation	
Quality of information	Key part of analysis, to identify knowledge gaps	Part of the analysis, to identify gaps that the PSIA should seek to fill

by *Renate Kirsch,*
the World Bank

The “S” in PSIA: Adopting a Social Lens

Policy-making is embedded in a political negotiation process, in which empirical evidence is only one ingredient.

A review of agricultural reform cases gave lessons for how PSIA can integrate social, political and institutional factors in policy analysis.

The key to success was identifying stakeholders and spotting spatially separated groups in marginal areas likely to be affected by policy reform.

The findings led to adjustments in reform design, which created higher commitment among key stakeholders, including NGOs, to support reform.

Poverty is a multidimensional experience. Next to income, factors such as access to assets and services, calorie intake, power relations and social positions of people in a community need to be taken into account. Ex-ante impact analysis of reform depends in particular on a full comprehension of the various dimensions if findings are to lead to valid predictions of how policies affect welfare. For a range of reasons, however, it has been difficult to translate this understanding into practice. Most PSIA are based on economic analysis alone. In an effort to overcome this bias, the World Bank has developed operational guidance conceptualising the political, social and institutional dimensions of poverty in PSIA. This article explains how this can contribute to better and more robust analysis of policy reforms.

Both economic and social analysis can assess the likely outcomes, impacts and risks of the design and implementation of reforms. Economic analysis uses a variety of tools to estimate the costs and benefits of policy interventions on households and individuals, and tries to predict behavioral changes in reaction to price movements or other independent variables. Social analysis complements this perspective by focusing on the structure of societies and how their characteristics affect reform design and implementation. Thus, it acknowledges the influence of institutional mechanisms and political economy issues over the reform process.

This brings into focus the nature of power relations, as well as an understanding of the social construction of hierarchy, authority, and diversity, which in turn helps to capture the social reality of actors and institutions affected or involved in the policy reform process. There are several case studies which illustrate how this has been done.

For example, a PSIA on Crop Board restructuring in Tanzania portrayed the

ways in which the concerned authorities have significant influence on the direction any reform of the Crop Boards would take. The institutional analysis revealed that they would potentially oppose reforms that would reduce their control over private agents and enhance the need for greater accountability on their part in the crop industries. Traders—who are likely to support the reforms—have less influence over policy decisions. Economic analysis alone would not have been able to provide such insights into the power relations of stakeholders, which determine the rationale and design of reform.

In Zambia, a PSIA assessed a controversial land privatisation proposal. Stakeholders were found to believe that taking away from traditional authorities the right to allocate land would create a power vacuum in rural areas, possibly undermining social stability in the communities. This risk was fortified by stakeholder perceptions that the state would not have the capacity to enforce the new rules and rights following land titling.

Understanding these political economy effects of a reform proposal that seems absolutely sensible from an economic and sectoral point of view allows for better assessment of potential risks and improves the likelihood of a successful implementation of reform.

Recognising that policy reforms have different impacts on different social groups, relevant information is sought out to allow for the identification of affected groups, and of opportunities, constraints and risks—to and from the policy reform under consideration. Well-designed programmes can mitigate the potential negative effects of reform. A PSIA on Mining Sector Reform in Romania revealed that women have been proportionally more affected in terms of direct job loss than men. Hence, it was suggested to broaden the scope of social

mitigation measures to include women and other vulnerable groups. These recommendations were taken up by Government and included in the World Bank's "Mine Closure, Environmental, and Socio-Economic Regeneration" loan currently under implementation.

A new framework for social analysis in PSIA has been developed within the World Bank. It provides a schema to development practitioners in order to facilitate the use and application of such analysis. The framework introduces three levels of analysis and highlights the need for an 'end of exercise assessment' of risks.

At the **macro level** the overall country and reform context is assessed. Policy decisions are not taken in a vacuum but are framed by specific country conditions. Decision making processes are better understood once the historical and cultural background, the ideological climate, the setting of political institutions, and the economic and social make-up of a country are assessed. Political economy issues linked to characteristics of the constitutional framework, the distribution of domestic political power, incentives of political actors, and the influence exerted by various socio-economic groups are also investigated at this level. A better understanding of these country-specific constraints and opportunities should increase the chances of successful implementation.

For example, country level analysis in Yemen provided insights on why inequality is increasing, revealing that insufficient integration of modern and customary norms is rapidly changing the rules for managing communal resources such as land and water. This results in the

concentration of productive land in the hands of a small number of powerful families, marginalising in particular youth, women and rural people. New opportunities for socio-economic inclusion, where social mobility was more detached from social status, were identified and helped to identify new employment opportunities (see page 14).

The **meso level** looks at the policy implementation process. Shining light on processes, rules, and incentives influencing implementation can facilitate understanding of the conditions under which reform will be successful. They are typically transmitted through incentives, organisational cultures and social norms. At the meso level the researcher tests assumptions about the stakeholders and institutions involved in implementing policy, including the interests and influence of social actors—stakeholder analysis—and about the social rules governing the implementation of policy—institutional analysis.

In Chad, a PSIA analysed the distributional impacts of a proposed policy reform to privatise and liberalise the cotton sector. The team conducted an organisational mapping to gain an overview of both the formal and informal institutional frameworks and of organisational practices, in order to identify potential constraints and opportunities to certain stakeholders. Through static and process mapping the formal as well as informal rules and procedures could be visualised, demonstrating actual practices in decision making, flow of information, money, and cotton inputs. Results revealed major constraints in the current set-up, such as a lack of private markets and communication infrastructure, organisation inefficiencies

that were spread throughout the vertical structure of the industry; and limited bargaining power of farmers' organisations and their representatives.

Micro level analysis identifies winners and losers and the dynamics of poverty at the community and household level. This level is characterised by hard to quantify complex, multi-dimensional processes. Different social groups have different levels of power, choice, influence and entitlement, with implications for each group's welfare under policy reform. To estimate the impacts for different social groups, relevant social variables are identified and analysed, such as age, gender, ethnicity, religion, education, citizenship, occupation, and political affiliation. The country, reform and institutional context will help determine which categories are most relevant and appropriate for study. For example, gender analysis in the PSIA on the Uganda Strategic Exports Initiative showed that women might disrupt the initiative, because labour rigidities would diminish women's control over labour and income in both the coffee and fish sectors.

Once the analysis of likely reform impacts is completed, it is important to review the reform risks and consider available policy options. Risk assessment and scenario analysis are useful tools in this regard. Both are used to measure confidence that predicted impacts will occur based on stated assumptions. Creating and reviewing different policy scenarios helps decision-makers to better capture the potential range of action available to them. It also helps to test the robustness of a forecasted impact from the policy change. This process of considering policy options is informed by data generated through the PSIA research.

In practice, the scope of a PSIA rarely involves generating new data on all three levels. In most cases it is also unnecessary. The conceptual understanding of analysing social and poverty impacts at these levels already directs teams to review a very different set of existing information. This helps in choosing between the need to generate new information and relying on existing knowledge when answering the most important questions. ■

Tools for Institutional, Political and Social Analysis of Policy Reform. A Sourcebook for Development Practitioners. The World Bank, 2007.

What does a social perspective contribute to understanding impacts of reforms?

Social analysis contributes to PSIA in at least six ways:

1. Explains how social identity and social relations may affect reform outcomes and impacts;
2. Identifies social groups and characteristics, making it possible to distinguish impacts of reform among different social groups;
3. Looks at formal and informal rules and behaviors, helping to understand power relations that can influence the reform implementation process;
4. Analyses the political economy of policy reform by systematically assessing the interests and influence of different stakeholders regarding reform;
5. Helps to identify socio-political and institutional risks to reform; and
6. Emphasizes attention to process and dialogue, helping to broaden ownership and social support for reform implementation.

by Estanislao Gacitua-Mario,
Clemens Gros and Renate Kirsch,
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Stakeholder Power and Policy Dialogue: Agricultural Reform Lessons

Policy-making is embedded in a political negotiation process, in which empirical evidence is only one ingredient.

A review of agricultural reform cases gave lessons for how PSIA can integrate social, political and institutional factors in policy analysis.

The key to success was identifying stakeholders and spotting spatially separated groups in marginal areas likely to be affected by policy reform.

The findings led to adjustments in reform design, which created higher commitment among key stakeholders, including NGOs, to support the reform.

A core objective of Poverty and Social Impact Analysis (PSIA) is to provide policy-makers with valid information on the expected distributional effects of policy reforms on different social groups. Results of such analysis inform the design, sequencing, and timing of the reform before it is actually implemented. However, policy formulation and decision-making are embedded in a political negotiation process, in which empirical evidence is only one ingredient. Stakeholder groups, some of which are very well organized while others are not, exercise their political interests and influence decision making. For PSIA to be effective in informing national policy making it has to pay attention to stakeholders, power relation and the policy dialogue around the reform.

In a review of 23 PSIA studies conducted in the agricultural sector, the World Bank assessed how the analysis of stakeholders and power relations as well as attention to the policy dialogue contribute to achieving effective PSIA that succeeds in informing policy formulation and implementation. This article presents results and case study examples from this review and seeks to stimulate discussion on how to carry out PSIA in order to better integrate socio-political and institutional factors in policy analysis.

Policy-makers rarely make decisions completely autonomously. More often, decision-making outcomes are a function of the interests and the power of key stakeholders. Generally, practitioners have a sound understanding of the stakeholders involved in a reform process. However, without careful attention certain stakeholders might remain invisible

and are not identified at the outset of the reform process. As a consequence their interests stay unrecognized in the policy discussion process. These groups tend to be the poor, particularly those who live in remote areas, work in undervalued sectors, and are economically, politically, and socially powerless. Attention to stakeholder identification and stakeholder analysis, which sets interests and influence among groups into relation, helps to make such groups visible to policy-makers and allows analysing how likely impacts of a reform might affect them.

The study showed that stakeholder identification was particularly useful in spotting spatially separated stakeholders and identifying those populations in marginalised areas or regions that would most likely be affected by policy reform. In the case of land reform in Cambodia, social analysis showed that landless households would benefit the most from the reform which entailed social land concessions to poor families. The reform would provide agricultural land for subsistence farming, develop unused land in remote areas and thereby stimulate economic development at the grassroots level. However, stakeholder identification also showed that the military would be affected negatively by the land reform and could potentially impede the reform legislation because it had expropriated land during the war and would now have to give it back under state control. These findings led to adjustments in the reform design, which in turn created higher commitment among key stakeholders, including non-governmental organisations, to support the reform.

However, there is still significant room for improvement in applying

stakeholder analysis in PSIA. The review of the cases found considerable variation in the extent to which analysis of social diversity and gender was undertaken. In a number of cases, little explicit attention was paid to the impacts on women, children or landless laborers. It is essential that all stakeholders are identified and informed throughout the PSIA process to increase their awareness of how they might be affected and build their confidence that their concerns will be taken into account.

The analysis of power relations and the policy process was the second dimension the study focused on. Attention was given to changes in the formulation of new rights, obligations, incentives, and sanctions that in turn influence the behavior of government actors and private individuals. The review found that most of the political economy risks stemming from changes in power relations were related to maintaining control over rents.

The capture of rents seems to be a particular risk in rural and more remote areas where transaction costs are generally high, competition and oversight often low and marketing margins large. Other political economy risks included institutional weaknesses that could hamper successful policy implementation, conflicts between different government ministries, inadequate engagement of key stakeholders, and lack of confidence by stakeholders in the efficacy of the reform.

In Zambia, for example, social analysis illustrated how traditional authorities interacted with formal agencies, and what this interaction meant for the proposed land reform. On the one hand, the reform would transfer control over land tenure from traditional leaders to the government, making it more likely that traditional authorities would oppose the reform because of their loss of authority. On the other hand, the change in land tenure control and the simultaneous lack of adequate government presence in rural areas would create a power vacuum that would make it difficult to enforce the new rules and regulations at the local

level. While this critical risk was identified and taken into account in the policy process, the PSIA in Zambia did not consider tensions between ministries themselves, and the role of the Ministry of Agriculture in implementation of the reform was practically ignored. As a result, conflicts between the Ministry of Agriculture and the Ministry of Finance—the sponsoring ministry—continued after completion of the PSIA.

This example illustrates the importance of understanding—before implementation—whether groups might have an interest to undermine the new decision-making structures or sets of rights the reform intends to introduce. Powerful opponents might have the power to impede the implementation of the intended changes or stop others from making use of their new entitlements.

As a third aspect, the Bank's study illustrated that the PSIA process often led to changes in the design of proposed policy reforms. These changes were mostly due to three factors: First, the provision of information that changed prior perceptions; second, stakeholder participation in the identification of policy options; and third, dissemination of results.

In the case of the Tanzania crop boards reform, where substantial dissemination of analytical results took place, stakeholder groups were able to discuss and evaluate findings and recommendations, which subsequently had more impact on policy.

The early involvement by the stakeholders with most at stake had a significant impact on design and ownership. For example, in cases where line ministries were not involved until very late, as illustrated by the cases of the agriculture market reform in Malawi and the Guyana sugar sector reform, support of the reforms by the sector authorities was weak.

The examples also indicate that there is an inherent tension in a PSIA process between analytical results that find evidence in favour of or against a

reform, and the political reality in which stakeholder differences become highly contentious. In the case of Tanzania, the government recognised the need to reform the crop boards and formed a respective task force, led by the Ministry of Agriculture, to review crop board performances and their impacts on crop industries. The joint review of the Government Task Force, the EU, and the World Bank uncovered vested interests determined to maintain the status quo, and realised that more direct engagement of key stakeholders at the political level during the study could have reduced some of the delays in the subsequent policy decisions on the actual reform design and implementation.

The PSIA review showed that choices made in the design of the PSIA had a significant bearing on its results. But it also identified constraints that impeded the approach from reaching its full potential: First, insufficient attention to, and involvement of, government agencies that had a stake in the reform—e.g. PSIA on agricultural sector reform that do not involve ministries of agriculture as key stakeholders, but concentrate on central finance and/or development ministries; second, limited efforts to disseminate analytical results, which severely limits their potential to inform the public; and third, a lack of clarity among donor staff about the ultimate use of the PSIA instrument—whether mainly for informing donor operations or the in-country policy dialogue.

In no case under review was an adequate monitoring and evaluation system established, and this shortcoming limits the longer-term utility of Poverty and Social Impact Analysis. Addressing these challenges will enhance the still limited effectiveness of PSIA in informing national policy making—a potential clearly achievable, as demonstrated by case examples reviewed in PSIA addressing agriculture sector reform.

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Stakeholders, Power Relations and Policy Dialogue: Social Analysis in Agriculture Sector Poverty and Social Impact Analysis. The World Bank, 2006.

by Nils Junge,
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Mine Restructuring in Serbia: A Process-oriented PSIA

Can unsustainable mines be closed down without provoking social tensions that sap the will to reform?

One way is a PSIA process involving adversarial groups from the beginning in joint studies and policy dialogue.

This process-driven PSIA helped forestall major social conflict while creating space for mine restructuring to be worked out.

The launching of a PSIA on the social and employment impacts of mine restructuring in Serbia in 2005 alerted many miners to the prospect of imminent policy changes. The investigation entailed the obvious risk of provoking social tensions and thus of sapping the government's will to reform. In order to mitigate the disruptive potential of this study the most adversarial groups, e.g. labour unions, were involved from the very beginning.

The PSIA—renamed a 'Labour and Welfare Impact study' to avoid using the sensitive term 'poverty'—was commissioned to assess the social and economic consequences of labour downsizing at RTB Bor, a copper mine conglomerate based in the Bor/Majdanpek region of eastern Serbia. RTB Bor was a large, socially owned enterprise (SOE), which was both financially and environmentally untenable. The company was almost bankrupt and required huge subsidies through the state budget—up to \$45 million per year. At the same time it was causing severe and ongoing damage to the environment. On the other side, the social and distributional impacts of reducing surplus labor in an economically depressed region could not be ignored. Bor and Majdanpek were mining towns which owed their existence to the discovery and exploitation of copper.

Although the copper ore was not entirely depleted and the region's mineral deposits held promise, RTB Bor's operations were no longer sustainable without massive new investments. With the Ministry of Finance exerting pressure to streamline the budget, the government was unprepared to inject hundreds of millions of dollars into the struggling SOE. Instead, it decided to unbundle the company and put RTB Bor's assets up for sale through an open tender.

Recognising the inevitability of a difficult transition phase, the World Bank pledged to finance both an environmental clean-up programme and a social and employment support package for the economically depressed region. The main condition was a transparently conducted sale of RTB Bor assets. The PSIA study analysed the potential social and poverty impact of downsizing RTB Bor's surplus labour force of 8,356 by almost 30 per cent. The government's interest in this exercise was to make the company more attractive and signal to potential buyers that social risks were being addressed.

The PSIA was built on several components: quantitative and qualitative employee surveys, a local business survey, regional economic studies, extensive field work and desk research. These fed into analysis of employee characteristics and local economic opportunities. The conditions for an impact analysis were optimal—three years earlier over 3,000 employees had left the mine in a previous round of redundancies. Projecting the impacts of future redundancies became much easier. Comparisons between current and former employees could be made, obviating the need to enter too deeply into the nebulous realm of counterfactuals.

Dismantling mining operations is one of the most difficult tasks governments face. Mining region's have a natural life cycle: ore is eventually depleted and the long and difficult process of transforming the local economy and transitioning its workforce must begin. Compounding the challenges, mine workers are frequently an intransigent stakeholder group, especially in Eastern Europe where they once occupied an exalted position in the socialist pantheon. Serbia was no exception.

In December 2000, facing economic upheaval after the fall of President Milosevic, a group of 1,000 RTB Bor employees had stormed the company headquarters and forced the administration to resign. In August 2004, miners blocked the Serbian highway leading to Athens during the Olympic Games, protesting earlier government proposals to restructure.

When the PSIA study team arrived in the fall of 2005, employees and their unions were still far from amenable to Government plans to reduce the workforce, dismantle the company, and sell off its assets. There had been minimal consultations between the central authorities and local stakeholders. People in the region complained that they had been neglected by politicians in Belgrade. These grievances were fed by those former employees who loudly regretted their decision to leave the mine. The message was that employees still with RTB Bor would refuse to accept the legally mandated severance pay for SOE employees of €100 per year worked.

The results of a household survey showed, counter-intuitively, that former mine employees were not worse off in consumption/expenditure terms, on a per capita basis: current employee households were spending €124 per capita/month and former employee households, €130. Even among the 30 per cent of unemployed former employees, average monthly consumption had not decreased. The household was chosen as the unit of analysis under the assumptions that consumption was equally distributed and that coping strategies were mutually supportive.

These quantitative findings contrasted starkly with focus group findings and trade union grievances asserting that most ex-employees were experiencing social and economic difficulties. What might explain the seeming contradiction?

First, it is quite possible that the worst-off former employees were the loudest, constituting an unrepresentative 'voice'. Second, wellbeing is multidimensional in which consumption is just one factor. From this perspective, a slight increase in

average monthly expenditures may well have been outweighed by a decline along other meaningful dimensions. Even if work in Serbia's emerging private sector paid better—trade, transportation and manual labour were typical post-mine areas of employment—in many former Socialist states nothing beats job security in a parastatal company. Thus the importance of mixed-methods evaluation was reaffirmed.

Beyond analysis, implementing the PSIA process so as to ease, not exacerbate, social tension presented its own challenge. Transparency regarding how information was collected, expressing the study's purpose clearly and involving stakeholders every step of the way were crucial in getting the findings considered, even if they were not universally embraced.

Numerous individual meetings and roundtables were convened to explain to miners, union leaders, and managers the purpose of the research, to elicit feedback on questionnaires, methodology, and findings. In this way, a relationship could be established with local actors who represented the main *a priori* opposition to reform. While relations were never warm and cosy, this process created space for dialogue and an emerging mutual respect. It may have helped that both the government and unions shared certain goals—employee welfare, rejuvenation of the mine, and the regional economic support. The proposed World Bank-financed support package remained on the table throughout these discussions.

The PSIA managers worked to broaden the terms of the debate, pointing out to resistant stakeholders the risks of an all-or-nothing approach. The local view seemed to be that the choice lay between the *status quo* 'indefinite and unlimited state subsidies' and collapse. However, the government's perspective was rather different. Budget constraints ensured that the status quo could not last indefinitely, and the choice was actually between restructuring and collapse. The PSIA team pointed out that insisting on the status quo might be a high-risk strategy for mine employees. Their representatives were encouraged

and challenged to propose their own solutions, and they did. A competing proposal was developed and advertised on television. The discussion moved from outright resistance to competing visions of change.

Fully aware of the importance of public opinion, the PSIA team held a workshop with local and national media. The government's rationale for restructuring and privatising the SOE was articulated, thus introducing a competing point of view. Hitherto, the local airwaves had been dominated by those opposed to restructuring.

These efforts contributed to a compromise: 2,350 employees voluntarily left the company only after unions negotiated a severance package of €200 per year worked, i.e. twice the standard amount. The PSIA team advocated opening a Transition Center to help employees adjust to life after RTB Bor and inform them of their rights and opportunities and this was done. The unions never stopped pushing hard for their interests, yet while demonstrations were threatened at various times, they did not materialise. In the end PSIA recommendations were incorporated into the design of the proposed social and employment support package and in June 2005 the government adopted an action plan for the restructuring and privatisation of RTB Bor. The Privatization Agency conducted a transparent tender and several companies placed bids, although as of the time of writing a buyer had yet to be determined.

To summarise, the PSIA process helped to create the space for negotiation and compromise among stakeholders. The interests and concerns of affected parties were incorporated into the design of the restructuring policy and support measures. There should be no illusions about social issues remaining a concern for many years. However, in promoting policy dialogue this process-driven PSIA helped forestall major social conflict while the restructuring of RTB Bor could be worked out. Authorities now hope to replicate these methods in addressing similar issues in the Resavica coal mining region. ■

by Sabine Beddies¹, and
Jeremy Holland²

Analysing and Managing Political Economy of Reform

There is an increasing interest in political economy analysis through PSIA in the international development community.

This is based on the need to better understand the dynamics of ownership as part of the 'new international aid architecture'.

Understanding the political context of reform processes is important for effective dialogue with policy-makers and stakeholders.

Participation, communication, dialogue and 'champions of change' are essential elements that can make or break a policy reform process.

In the past, failure to anticipate political and institutional challenges has been a chief cause of unsuccessful policy reforms and development operations. Many of these have not fully considered how non-economic factors—such as institutional constraints, stakeholder interests and perceptions, political support or opposition to reform, or capture of benefits by influential vested interests—influence reform outcomes.

Thus, the lack of adequate understanding and management of 'the political economy of reform' has often stalled, cancelled or reversed reforms or operations that may have had a sound technical and economic design.

Understanding the political context of reform processes, however, is important for engaging effectively in policy dialogue with policy-makers inside and outside of government, the private sector, civil society, and development partners.

A political economy lens provides an understanding of the relationship between policy-induced changes in incentives and sanctions, and changes in behavior and interests.

It broadens operational considerations beyond technical solutions and emphasises the analysis of stakeholders, institutions, impacts, and risks. This analysis can then be used to inform the design of effective and inclusive processes of stakeholder participation during the negotiation of policy reforms and development operations.

Such a more flexible and contextual approach to policy reform and operations may require developing pragmatic, second- or third-best answers that collaborating agencies and stakeholders can agree upon rather

than 'perfect solutions'. It requires technical solutions that are accompanied by processes of consensus-building, communication, participation, conflict resolution, compromise and flexibility.

It can help identify and address possible risks and opportunities for policy reforms and operations. This allows development practitioners to design, implement, and assess reforms and operations that are more equitable and sustainable, which in turn helps to enhance development effectiveness.

Political economy draws upon economic, social and political theory in order to understand how political actors, institutions and economic processes influence each other. Political economy analysis proceeds from a power-based model of change—at the collective and individual level. For instance, it entails the study of the influence or power of political institutions and organisations, such as legislatures, executives, and judiciaries, and the implementation of public policy by bureaucratic agencies.

It also analyses the influence or power of political and societal actors in policy processes—including various interest groups, political parties, faith-based organisations, and the media.

There is an increasing interest in political economy analysis among development agencies. This is based on the need to better understand the dynamics of ownership as part of the new 'international aid architecture' of country-driven development strategies under the Paris Declaration.

This reflects the move away from the rather rigid policy conditionalities associated with the structural

1. The World Bank;

2. Oxford Policy Management.

adjustment era and towards a new development approach that puts country-driven development at centre stage.

No systematic approach for analysing the political economy of reform and its operational application has yet been fully developed; different donors use different frameworks. In addition, operational experiences with political economy of reform issues can often not be used due to the ostensibly technical relationship between donors and borrowers. Experience with political analysis, on the other hand, has not always been effectively translated into operations.

Sensitivity to political processes often involves a long-term, patient and incremental approach to promoting policy change which can be at odds with short-term planning horizons, spending and accountability demands within donor agencies. Hence, a key challenge is to merge high level analysis of the political economy of reform with operational strategies and programs through a conceptual framework and practical tools that address the operational challenges. Demonstrating how political economy analysis contributes to improved aid effectiveness and harmonisation can assist in overcoming these tensions.

To address these issues, the social development group within the World Bank is developing a conceptual framework on the political economy of reform. Based on the PSIA approach, the framework combines social and economic analytical tools to assess the potential distributional impacts and equity implications of reforms and operations.

By assessing the likely winners and losers of reforms and operations, PSIA identifies the support and opposition and capture of benefits by powerful interests of those interventions. It assesses and addresses issues concerning ownership and sustainability of reforms and operations. If powerful interests stand to lose from the interventions, they may oppose reforms or operations by stalling, delaying or reversing them.

The political economy of reform framework

- i. analyses stakeholders, institutions, impacts, risks and opportunities,
- ii. uses this during the stakeholder dialogue to
- iii. identify and address possible concerns and opposition to policy reforms and development operations by
- iv. integrating these concerns and opposition pro-actively into the design and implementation of reforms and operations.

Operational examples include, for instance, central governments' opposition to decentralisation due to loss of power and resources to local governments or avoiding reform due to the loss of economic benefits. Several PSIAs have specifically addressed the political economy of reform across several sectors, such as Bangladesh Chittagong Port, agriculture in Tajikistan, Chad and Tanzania, water reforms in Yemen and Albania, and mining reforms in Romania.

Grounded in the PSIA approach, this emerging political economy of reform framework has the following key elements:

- **Reform context** comprising the broad societal, historical and cultural characteristics of the country, including its development trajectory and the current development aid architecture;
- **Reform arena** comprising institutions, stakeholders, economic and political interests and perceptions, impacts, risks and opportunities; and
- **Reform process**, comprising dialogue, building coalitions for change, partnership, participation, transparency, communication, and the interactions between players in the reform arena over time.

Preliminary findings of this ongoing work highlight that all policy reform processes entail a change in institutions and stakeholder interest and influence. Reform interventions that unsettle the institutional basis for political and economic, e.g. rent-based, interests are critical. Political economy of reform issues can thus be seen as risks or opportunities for policy reform that need to be effectively managed.

Findings also show that opportunities can be created through progressive and

reforming zeal amongst politicians and bureaucrats motivated by political and developmental goals. Economic interests, on the other hand, tend to defend the status quo and to protect 'rent-seeking' opportunities amongst central government actors, bureaucrats and private sector vendors.

In terms of process, preliminary findings show that participation, communication, dialogue and 'champions of change' are essential elements that can make or break a policy reform process.

A political economy approach through PSIAs works best when information generation and dissemination goes hand in hand with policy dialogue that supports a more accountable institutional environment—one which separates functions to avoid political economy blockages while strengthening civil society oversight of service delivery.

Reform opposition or blockage can be overcome by supporting policy and operational design that increases accountability relations between government and citizens, by perceiving reform counterparts as development partners, and by enlarging the coalition for change by including multiple stakeholders from public and private sector, civil society and development partners.

To sum up, analysing the political economy of reform is important to inform stakeholder dialogue that involves transparency, openness, and partnership with policy makers and the public. The analysis should build on the PSIA approach and be objective, timely, and demand-driven. ■

The Political Economy of Policy Reforms – Issues and Implications for World Bank Lending, The World Bank and Oxford Policy Management, 2007.

by Sabine Beddies¹, Christopher Ward¹,
Anwer Sahooly², and Maher F. Abu-Taleb¹

Power Mapping: Water Sector Reform in Yemen

Lack of access to clean water, irrigation and sanitation are important dimensions of poverty.

Inequitable distribution of land and water assets restricts water access in Yemen, especially for poor groups.

Past reform efforts have been hampered by low implementation capacity of institutions, capture of benefits, and reluctance to reform.

A PSIA with power mapping was carried out on a national strategy for water sector reform—one of the most advanced in the Arab world.

Yemen is a low-income country — most of its people are poor or extremely poor. Over the last three decades, Yemen has witnessed dramatic changes on the political and socio-economic fronts. A new governance system emerged after the unification in 1990, characterised by decentralisation and integration of traditional governance structures. There is a shift toward a market economy from the past subsistence agriculture of the North and the command economy of the South. This led to the weakening of traditional conflict resolution system while the formal legal system is not yet fully effective. Some tribal leaders seem to act above the law.

The distribution of land and water assets has become inequitable, due to the increasing land concentration and private appropriation of communal land. This restricts water access. Poor groups suffer from limited access to endowment land. Deep well irrigation individualises water supply and weakens community systems for water management. Tribal leaders have become the largest water consumers; this creates a conflict of interest between their role as mediators for dispute resolution within the community and enhancing their individual economic gains.

Lack of clean water is an important aspect of poverty. Yemen's groundwater resources are used up faster than replenished, and the poor are worst affected. Access to safe water and sanitation is low, and the poor are worst served. Irrigation water use is sub-optimal. The allocation of water investments is inefficient. Past reform efforts have been constrained by low implementation capacity of institutions, capture of benefits, and reluctance to reform.

A new Ministry of Water and Environment (MWE) was created in 2003,

with three implementing agencies:— NWRA for water resources management, NWSA and LCs for urban water supply and sanitation, and GARWSP for rural water supply and sanitation. In 2005, the Government prepared a National Water Sector Strategy and Investment Program (NWSSIP), which aims to address three main water sector problems:

- Low water resource availability, groundwater overdraft, and the vulnerability of irrigated agriculture;
- Inefficient service, inadequate coverage and high fiscal subsidy of water supply and sanitation in urban areas;
- Low coverage and poor sustainability of water supply and sanitation in rural areas.

NWSSIP was approved as the national strategy for water sector reform and is regarded as one of the most advanced in the Arab world. It defines objectives, policies, and approaches as well as action plans for the medium and long term, including a four-year investment programme. Government has also introduced the key mechanism of Joint Annual Review of NWSSIP to appraise progress and verify the validity of targets and policies by all sector stakeholders. Two annual reviews have been held since 2005 and this has become the single most important event in the sector. However, full implementation of NWSSIP remains hesitant because of the political economy constraints, institutional fragmentation in the water sector between MWE, and the Ministry of Agriculture and Irrigation (MAI); and incomplete fiscal and political decentralisation.

Government and donors agreed that some of the major NWSSIP reforms should be the subject of a Poverty and Social Impact Analysis (PSIA). The PSIA was designed as a participatory Yemeni

1. The World Bank;
2. GTZ.

exercise with the Government, the World Bank, GTZ and domestic stakeholders to (i) understand stakeholder interests and their support or opposition, institutions, impacts, risks, opportunities, and (ii) to build coalitions for change, address opposition, and enhance reform ownership. The PSIA addressed both the equity and the political economy of NWSSIP implementation to recommend concrete measures on how to accelerate implementation in groundwater management, irrigation, and rural water supply and sanitation.

Stakeholders chose to include all NWSSIP subsectors except urban water and sanitation, where they felt, they have a good grasp of the reform's economic and social impacts and how to mitigate any negative impacts.

Stakeholders welcomed the study as an important tool for evidence-based decision-making, and they validated its findings and recommendations. They developed power maps that show stakeholder support, opposition and influence regarding NWSSIP implementation, as well as graphs that illustrate the flow of funds

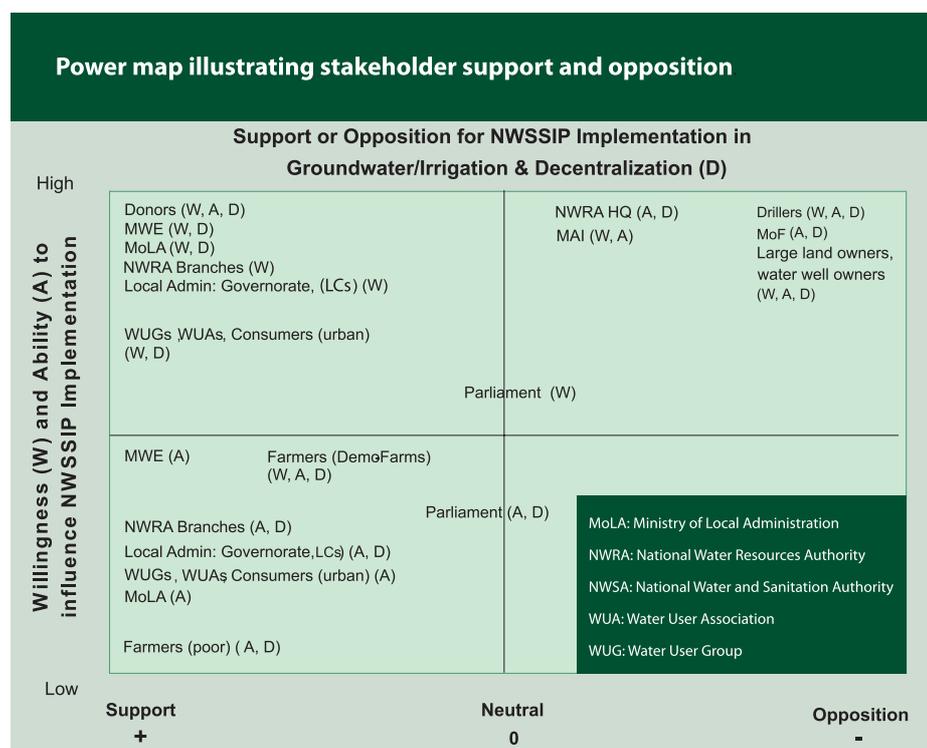
and information, and a PSIA Matrix that matches recommendations with suggestions on how to overcome the identified constraints of NWSSIP implementation and enhance its equity focus.

A key finding of PSIA is that NWSSIP reforms have to be implemented with the right sequencing and dosage of reforms and support. It showed that NWSSIP continues to be the right strategy, but needs to be implemented as a reform package. While the diesel price subsidies, largely benefiting the better-off, was eliminated to counter the overdraft of groundwater, it has led to water price increases and in a drop in consumption by the poorest—both irrigating farmers and rural water consumers. NWSSIP may save water, but this may be at the risk of depressing the rural economy, hampering employment and the incomes of the poor. Poor irrigating farmers, rural communities, and landless people are hit hardest by the raised water prices after the elimination of diesel price subsidy; the well-off cope better, as water still remains affordable, and they access to alternatives.

Vested interests still hamper reform; for instance, large farmers continue to capture benefits of water as a 'free public good' via access to land and tubewell drilling. However, efficiency and welfare gains can be achieved, if changes are made in the incentive structure in conjunction with investment in efficient irrigation and low cost rural water supply. Substantial extra effort are needed to achieve pro-poor outcomes and move Yemen to the path of 'more income for less water', but this requires linking institutional development to investment, especially in the rural water and sanitation sector.

Through its participatory approach, the study generated broader ownership of findings, and contributed to a shift in perception among key stakeholders. Specifically, there is a momentum to enhance NWSSIP equity, overcome the identified implementation constraints, and to increase the reform dialogue, especially among the two water sector Ministries, who have started to engage in the NWSSIP implementation debate. This was also visible in the second Joint Annual Review (2007), which witnessed increased involvement of the irrigation sub-sector, and investments in irrigation improvement. An inter-ministerial steering committee has been created to lead the NWSSIP update and implementation. Public awareness of NWSSIP and support for its implementation has also been raised.

The PSIA, however, also stressed that the process of ownership building needs to go beyond the usual public agencies to further engage civil society, water user groups, and local governments. Government, donors and stakeholders agreed to implement priority PSIA recommendations through a multi-donor Water Sector Support Program. The quality of results inspired the German water sector programme to propose a PSIA for the urban water and sanitation sub-sector, which is now in preparation, and the practical cooperation between World Bank and German Development Corporation led to a new quality in relations and collaboration which extends to other activities in the Yemen water sector, and on the global PSIA agenda. ■



Stakeholders in the *top left quadrant* support NWSSIP implementation and decentralisation reform and their willingness to influence implementation is high, but MWE shows only medium ability to do so (*middle left*). NWRA branches are considered highly willing to support reform (*top left*), but their ability to do so is low (*bottom left*). In the *lower left quadrant*, supportive stakeholders such as poor farmers have low ability to influence reform. Stakeholders in the *top right quadrant* have high influence to oppose reform.

C. Ward et al.: Yemen's Water Sector Reform Program – A Poverty and Social Impact Analysis (PSIA). The World Bank, 2007.

by Elke Kasmann,
GTZ

More than Research: A Governance Take on PSIA

The PSIA approach is based on the idea that there is no single 'correct' policy that can provide an adequate solution to poverty and social problems in a society.

Policy reforms usually produce both winners and losers. Thus, some social groups will support a specific reform while others are likely to oppose it.

Policies and programmes may fail because a technocratic perspective underestimates the influence of social context.

PSIAs should be anchored in existing structures and processes in host countries and include capacity-building and dialogue.

German development cooperation has been involved from the outset in developing and anchoring the PSIA approach at the World Bank and in partner countries. The German interest in PSIA is based on the perceived potential of the approach to address the often contested and highly complex processes of policy reform in the context of poverty reduction strategies (PRS). This article summarises the lessons learned so far with PSIA from a governance perspective, focusing on the following aspects:

- Strengthening national institutions and democratic processes in partner countries;
- Acknowledging the political economy of reform and existing institutional capacities;
- Balancing a purely economic and technical view of development with a social development perspective;
- Supporting the emerging new roles of donors and the World Bank.

The PSIA approach is based on the idea that there is no single 'correct' policy that can provide an adequate solution to a given problem affecting a society. Rather, there are several policy options which need to be elaborated, put forward for public debate, deliberated by all relevant stakeholder groups and, finally, decided on by the political leaders.

The nature of policy-making in many partner countries has been quite different. Key reform policies were discussed primarily in secluded conference rooms within Ministries of Finance, with representatives from the international finance institutions and high-ranking officials from central Government bodies—often even without the relevant sector ministries.

With the introduction of PRS and related dialogue processes, this practice started to change. The PSIA approach advances

this idea. It supports transparency and stakeholder involvement and helps to bring policy formulation and scrutiny into the local arena.

However, it is crucial to understand that these are long-term processes. Many partner countries, especially in Africa, are comparatively young democracies; institutions are often fragile and capacities for policy analysis and evidence-based policy making still weak.

Policy reforms usually produce winners and losers. Thus, some social groups will support a specific reform and others will oppose it. This kind of information about the nature of *political economy* is of major importance in the design and management of a policy reform process. PSIA has the ability to shed light on these issues by analysing stakeholders, institutions, impacts and risks. Furthermore, experience has shown that acknowledging existing institutional capacities is a key determinant of the quality of policy reforms.

The PSIA methodology calls for robust institutional analysis. At this point, assumptions about how changes at the macro level are transmitted through the institutional system down to the micro level of households and individuals have to go through a reality check. Specific local circumstances are brought into the picture, which helps in the process of assessing how and to what extent the *theoretical* impact chains—usually arising from sector knowledge and economic theory—will be realized.

These institutional issues have always been a major concern for German Development Cooperation. GTZ in particular has emphasised the need for a better fit between policies and the institutional environment in order to make sure that the specific local circumstances receive adequate attention

and are not subsumed within the *ceteris paribus* assumptions of general models.

When policies and programmes do not play out as envisaged, it is often because a technocratic perspective underestimates the influence of social context on the envisaged changes in behavior, institutional structures and procedures. For instance, efforts to liberalise the agricultural sector sometimes ignore the deeply rooted mistrust of farmers towards traders and middlemen, especially those of a different ethnic origin. Farmers have often opposed liberalisation because the mistrust of outsiders is a tradition that is deeply entrenched in rural society—and nurtured by some governments that benefit from state marketing boards. A social development perspective on agricultural reform can bring farmers' perceptions to the surface along with the relevant political, historical and social context.

Similar examples can be found in other sectors, and they all have to do with the perceptions of social groups, consumers, citizens and health care clients and how these will affect their behavior and reaction to specific policies, incentives and change. Most policies are heavily dependent on how institutions and people react to changes in law and incentive structures. Economic and sector thinking can take account of these reactions and mediating effects only by way of *universal* hypotheses. Social analysis is able to illuminate the *specific* reactions and effects of different social groups and actors on the basis of the *social, historical and political context*. The methodology of PSIA supports a balance between these different perspectives. It features multi-disciplinary teams and a combination of economic and social analysis as well as quantitative and qualitative data collection and analysis.

The lessons learnt so far indicate that the PSIA approach supports the shift from policy prescriptions and broad conditionality towards policy dialogue. The approach can assist partner countries and donors in shaping their emerging new roles. With regard to the World Bank, efforts are underway to promote a more 'sustained engagement' with client countries and a general change in the way the Bank does business.

PSIA can support these changes; we know from several cases that the PSIA process had an impact on the policy options considered by the World Bank and on the final advice given to client countries (e.g. local government tax reform in Tanzania, privatisation of parastatal markets in Malawi, rural reform in Zambia). The impact may be less tangible in other cases but is still important in terms of influencing the process and the policy debate.

Despite this overall positive picture, there is still a long way to go. PSIA is not a magic wand; all depends on *how* it is applied in practice. Good practice PSIA means anchoring the PSIA exercise as far as possible within existing structures and ongoing processes in partner countries. The crucial point is to facilitate the PSIA process in a participatory manner—from launching the idea, commissioning the work, the fieldwork itself, through to the process of feedback into policy debate.

One lesson learnt is that it is essential to generate good-quality experiences with this approach in order to avoid any perception of it being just another donor-driven instrument and to create the opportunity for partner country stakeholders to take up PSIA and integrate it into their own processes. Such an approach requires a good deal of facilitation, open dialogue and flexibility—all of which seem to be quite challenging under the prevailing institutional imperatives of many donors and of the World Bank as well.

Where do we stand with PSIA today? A brief stocktaking reveals the following:

- There have been about 150 PSIA applications since 2001.
- There is already an impressive number of publications and materials available: a user's guide, case studies, sector guidance, tool kits for economic and social analysis, training materials, e-learning courses, etc.
- PSIA is part of the operational policy of the WB for its budget support operations.
- There have been trust funds from several bilateral donors to support the PSIA work of the WB and partner countries.

At first glance, this seems to be quite a mainstreaming achievement. However, the impression is misleading. The governance issues described in this article, such as strengthening democratic processes and supporting the emerging new roles of donors, mark long-term processes of institutional and societal change in partner countries as well as in donor organisations and the World Bank. The progress of the PSIA approach is linked to its institutional context. PSIA may push one step ahead, but there are no quick fixes.

All this said, what is the way forward?

1. Clarify the **role of donors** and partner countries: donors should no longer steer the PSIA process but facilitate it, promote good practice and support capacity-building. However, the ideal of a purely "country-led approach" is not a feasible alternative. Experience shows that donors need to act as brokers and support investment in political dialogue—needed to open up for stakeholder participation and a public debate.
2. **Focus on quality:** Good PSIA work is more than robust research. It comprises a participatory process, a multi-disciplinary team and accompanying capacity development measures in partner countries.
3. Link PSIA to **aid effectiveness** reforms at country level: With donors drawing back from conditionality and direct involvement in implementation, and partner countries taking on ownership for their national development, the policy dialogue becomes crucial for the process of alignment.

PSIA could enhance the quality of policy dialogue and substantiate results orientation by focusing on policy issues essential for reducing poverty and providing robust evidence. PSIA is endorsed by the World Bank and the IMF and supported by many bilateral donors. Thus it is a potentially powerful joint approach to assist partner country stakeholders and the donor community in the search for common ground.

by Alwin Nijholt,
UNDP Malawi

Timing, Participation and Capacity: PSIA Lessons from Malawi

Three PSIA have been conducted in Malawi, informing national policy-makers and donors alike about poverty and social impacts of planned reforms of key sectors.

They all swayed the reform plans towards smarter, pro-poor designs and prompted the government to institutionalise PSIA.

A transparent process of selecting policy reforms for PSIA is expected, and then tracking the implementation of the key recommendations.

This would involve the national monitoring and evaluation systems as well as civil society organisations.

Three PSIA have been conducted in Malawi since 2002. These studies focused on reforms in agricultural marketing, the tobacco sector and the water sector, resulting in important policy debates between stakeholders. Several lessons have been learned from the PSIA experience in Malawi. This article highlights the main ones.

Malawi's first PSIA was launched in 2002 as a joint study between the World Bank and the government. The objective was to determine the likely poverty and social impacts of closing down a large number of markets operated at a loss by the parastatal Agricultural Development and Marketing Corporation (ADMARC). The poor financial performance of ADMARC had become a major source of concern for the government and the international financial institutions. At the same time government, civil society and donors were concerned that a too radical restructuring of ADMARC might disrupt its social function in remote rural areas where it acted as both buyer and seller of the staple food maize. ADMARC was fulfilling an important food security role, acting as a last-resort provider of maize especially in the lean seasons.

Based on both quantitative and qualitative studies, the PSIA concluded that ADMARC was wasting public funds and that its marketing operations could be substantially reduced without any serious social risks. However, full privatisation of ADMARC's operations was not recommended because of the persistent market failures in remote areas where the private sector was unlikely to step in due to the poor roads and high transport costs. The findings and recommendations turned out to be strikingly similar to those of an earlier independent study, commissioned by Oxfam Malawi.

The PSIA informed the decision on a World Bank structural adjustment credit. One of the major concerns of especially the civil society was that the process seemed to be donor-driven with limited stakeholder consultation. The findings were shared with government and some civil society leaders in September 2003. However, before the main dissemination workshop the President called for a special session of Parliament to approve the privatisation of ADMARC. This was primarily a political gesture to show commitment to the restructuring process. The details still had to be agreed with stakeholders.

Based on the PSIA recommendations the World Bank reviewed its policy advice and adopted a more nuanced stance on ADMARC, no longer promoting full-scale privatisation. Still, the controversial decision by government to privatise ADMARC before presenting the PSIA findings left a somewhat bitter aftertaste among the public.

This experience indicates the importance of appropriate timing and engaging all relevant stakeholders in the whole PSIA process in order to create a sense of national ownership and increase the probability that the recommendations will be implemented. Yet, the findings and recommendations were eventually accepted by all main stakeholders. The restructuring of ADMARC, separating its social and commercial functions, is still in process.

The second PSIA focused on the proposed restructuring of the tobacco sector. Studies were carried out with support from the World Bank. The consultative process with stakeholders was more inclusive. Based on the conclusions, the Ministry of Agriculture came up with recommendations which

were approved by Cabinet in April 2005. The measures taken appear to have contributed to more efficiency and competitiveness in the marketing chain.

The experience of these two studies prompted the government to plan for the institutionalisation of PSIA under the leadership of the Ministry of Economic Planning and Development. In 2005, a multi-stakeholder Steering Committee was established with the responsibility of selecting key reforms to undergo a PSIA and to supervise their implementation. The 2006-2011 Malawi Growth and Development Strategy (MGDS), i.e. the second poverty reduction strategy, was to benefit from more routine impact analyses.

The impetus for the third PSIA was a call for proposals from a global PSIA programme operated as a joint initiative by UNDP and the World Bank. In February 2006 a PSIA proposal was developed by the government together with UNDP-Malawi to assess the impact of private sector participation in the distribution and management of water services in low-income areas in Blantyre, the largest commercial centre, and the capital Lilongwe. However, there was relatively limited input from the Ministry of Irrigation and Water Development in the PSIA proposal. The ministry's priority was to finalise the second National Water Development Programme to be funded by the World Bank.

Following acceptance of the grant proposal the Water Sector PSIA was conducted in November-December 2006 and consisted of an analysis of previous quantitative studies, a literature review of international experiences with water sector reform, and qualitative data collection including focus group discussions and key informant interviews at community and household level. The draft report was discussed at length with stakeholders represented in the Steering Committee. The final report was presented in March 2007. The key findings were subsequently discussed with staff from the water ministry.

The key findings of the PSIA point to the high risk of privatisation of water companies in urban low-income areas,

because it is likely to result in price increases, hence reducing access to water for the poor. The main recommendation is that management of the Water Boards should not be privatised since it is a high-risk strategy. Instead, small-scale private sector participation in the distribution of water should be encouraged, scaled-up and regularised. Liberalisation of water distribution is expected to lead to positive impacts via increased competition among water user associations, domestic resellers, private water kiosk managers, etc. Concurrently government should prioritise substantial investments in the water infrastructure and address supply constraints.

The Water Sector PSIA has been praised by all stakeholders as a high quality study. However, despite the endorsement of the study at senior levels, many officials in the water sector still seemed to perceive this as an externally driven study which might delay approval of a World Bank credit for the water programme. Privatisation of the Water Boards, initially one of the favoured options by the Ministry of Finance, is no longer being pursued. Instead, a management contract or service contract is being considered, but a final decision is currently awaiting debate in Cabinet and Parliament. It should be noted however that the decision not to privatise the Water Boards was made prior to the publication of the PSIA findings. It is still too early to determine to what extent the PSIA recommendations will be taken into account in the implementation of the national water programme.

Yet a number of lessons emerged from this study. *First*, the fact that for various reasons the key players in the water sector were not fully involved in the design of the PSIA resulted in half-hearted ownership of the study results as indicated by some of the misperceptions upon presentation of the PSIA findings. *Second*, it would have been more appropriate if the PSIA had been conducted earlier in the design stage of the national water programme. It would also have been preferable if it had been fully integrated as one component of that process rather than becoming a parallel exercise. *Third*, the impact of the PSIA might have

been more pronounced if it were fully embedded in the national development strategy as a critical analytical tool. In that case all stakeholders, including politicians, would have been obliged to take it even more seriously. *Fourth*, the limited capacity and multiple responsibilities of the planning ministry delayed the process at times. Institutionalisation ultimately requires more than a few committed individuals.

In terms of the way forward, there is need to apply the lessons learned from the PSIA experience in Malawi. Institutionalisation is the key word in order to further develop PSIA as a useful instrument for evidence-based decision-making. The following elements are crucial:

- Ensuring participation of all relevant stakeholders in the process from start to end, including government officials, politicians, academia, civil society, the private sector, media, etc. A participatory process plus a thorough analysis can increase a government's leverage vis-à-vis donors' views on critical reforms;
- Getting the timing right to ensure that PSIA—before, during or after a reform—are conducted on time to feed into the national policy process;
- Developing national capacity and grooming high-level champions to lead the PSIA process. Time, financial and human resources need to be invested to build an institutional home for PSIA.

To ensure optimal use it would be preferable for PSIA to be firmly integrated as a component of the Malawi Growth and Development Strategy. Currently, government and donors are developing options for further institutionalising PSIA. This is expected to result in a transparent process of selecting policy reforms to be subjected to a PSIA and subsequently tracking the implementation of the key recommendations through the existing national monitoring and evaluation systems as well as by civil society organisations where necessary. ■

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Donor Experience of PSIA: A DFID Review

How effectively has PSIA been contributing to evidence-based, participatory and pro-poor policy-making processes?

National ownership and engagement in PSIA varies widely across countries.

Resources are limited and sometimes also the real interest in poverty reduction and evidence-based policies.

Civil society has had limited opportunities to engage in PSIA and influence policy-making.

Yet, there are many examples of creative and context-specific research methods used in PSIA.

In recent years, PSIA has been used increasingly as an analytical tool to assist in the process of policy design. But how effectively has it contributed to evidence-based, participatory and pro-poor policy-making processes? This article summarises a review of DFID staff experience.

Modern aid architecture emphasises national ownership of development strategies and resource management. A main conclusion from the review was that a central goal of PSIA is to support national decision-making processes. Resource and methodology issues should not detract from PSIA's key role as a generator of domestic momentum around evidence-based policy-making.

National ownership and engagement in PSIA varies widely: some governments view PSIA as a donor requirement or a donor led project, while others design, commission and fully fund PSIA to support their own decision-making. However, in general, few aid recipient governments would implement PSIA, routinely, to identify the likely impact of proposed policy changes or to highlight suitable mitigation measures for groups likely to be negatively affected.

One reason for this apparently limited enthusiasm is clearly a resource constraint. This is why donors should support the development of national systems which use PSIA as an integral part of their planning and policy processes. However, there are challenges which are perhaps even more pressing; the commitment to poverty reduction is weak amongst many national and local policy elites, and the role of evidence in policy-making is limited.

There has been a continuum of approaches to identifying and prioritising issues which require examination through a full PSIA—from heavy reliance on donors at one end to greater levels of

national autonomy at the other. At one end of this continuum is the World Bank which has identified, designed and funded a number of studies which have provided the evidence required for continued Bank support. Further along the continuum are examples of donors suggesting topics to a government and offering to provide technical assistance. Other scenarios include governments asking for donor assistance, topics arising from donor-organised workshops and consultations or after discussions between donors and local research partners. There is limited experience so far of PSIA topics being identified as a result of internal government processes with little donor involvement.

PSIA on topics identified and prioritised by national governments may follow as they become more widespread, as capacity increases within government and as evidence-based policy-making becomes more embedded. Examples in the review show how other factors, e.g. political stability, may cause governments to seek out assistance for commissioning a PSIA.

The review indicates a range of issues that have emerged when implementing PSIA to date: the in-country capacity—or lack of it—to carry out PSIA; the problems of accessing quality data; timing of PSIA to ensure they are real-time policy analysis etc.

While some positive examples emerged of high quality and independent research teams conducting PSIA, the most common complaint has been the weakness of domestic research capacity and particularly the lack of research teams able to carry out combined qualitative and quantitative analysis. The review showed, however, that in some cases the very process of conducting a PSIA actually helped enhance data collection and research capacity.

There are many examples of creative and context-specific research methods used in PSIA. In all cases, these choices have been affected by context, topic, institutional capacity, donor requirements and time constraints. Central to most PSIA is the need to integrate qualitative and quantitative research. In general, experience suggests that an iterative process between the two approaches is required so that the conclusions and recommendations in the PSIA are based on all the research findings.

Many second-generation PSIA have been commissioned by the World Bank, by DFID and by other bilateral donors since the completion of the pilot PSIA in 2001. The degree of donor co-ordination around PSIA varies greatly. In some countries there has been substantial collaboration around PSIA while in others it has depended on individual relationships or has been weak, with different donors approaching PSIA very differently.

The review showed that donors do not appear to be in agreement about the key purpose of PSIA, about many details concerning their implementation nor about their primary end user. In particular, there appears to be differences of emphasis between the IFIs and DFID. The World Bank has tended to use PSIA primarily as a component of due diligence accompanying its lending operations and has tended to prioritise PSIA topics according to its reform agenda in a particular country.

DFID's approach to PSIA has differed from that of the World Bank; the key constituency has been identified as national governments and PSIA have been seen as opportunities to increase the use of evidence in policy-making. This has led to much greater emphasis on government involvement in PSIA processes; the production of 'real-time' results and the stimulation of national policy debates.

Experience so far has shown that civil society has had limited opportunities to engage in PSIA and even where CSOs have engaged in national debates around PSIA they have had limited policy influence. Many PSIA studies have been inaccessible to civil society. In some cases this has been because the complex

and highly technical content has challenged national CSO sectors with limited capacity. But also the differences of perceived audiences for, and purposes of, PSIA has determined the level of civil society engagement, and in some countries civil society has, to a large degree, been excluded.

The review shows cases where the proposed policy change is highly contentious, civil society has commonly been kept at arms length to allow the government to carry out the changes without too much public debate. However, there are also cases where civil society has been brought into highly charged PSIA discussions as a way of widening understanding of the rationale for the proposed policy change.

PSIA do open up opportunities for civil society to build their capacity to engage in policy discussions; DFID is taking advantage of this opportunity in some cases to find and support CSOs to engage in future PSIA. However, ensuring meaningful civil society participation also relies on the PSIA design, and donors and PSIA consultants need to be sensitive to power differences in each society.

Another main conclusion of the review is that the political context and the existing culture of evidence-based policy-making is crucially important in determining the levels of engagement in PSIA and the extent to which PSIA-derived evidence is able to influence policy. The review confirms the importance of political and historical circumstances in shaping how evidence is used to influence policy. While robust evidence can be persuasive, it is still only part of the picture and power networks mediate the impact of evidence on policy.

Increasing the utilisation of such evidence is a complex process and it cannot be assumed that PSIA will necessarily deliver rapid change. Understanding the political dynamics of policy change, particularly those forces in society that may be supporting or opposing change, may improve the likelihood that evidence will be used to influence decisions and support successful policy implementation.

Opening up opportunities for parliamentarians, civil society and the general public can be beneficial and can also help to make PSIA more influential in policy terms. Political and power analysis is an important start to understanding and predicting where it may be possible for research-based evidence to have an impact on policy-making.

The type of policy change under review together with the context and the quality of the PSIA output strongly influence the potential impact that PSIA have on policy and decision-making processes. Different uses of *ex ante* analysis also clearly affect its impact on policy. The first approach to PSIA assumes a policy vacuum on a given topic whereby a number of policy alternatives can be considered and evaluated on the basis of their respective distributional impacts. The second and more common approach to PSIA is to apply PSIA tools to evaluate the likely impact of a policy decision that has already been agreed to raise awareness in governments and donors and, where necessary, suggest measures to increase benefits or reduce costs to specific social groups.

Often PSIA are linked to policy reforms tied to IFI lending to national governments. In these cases, the question arises as to whether the extent of international consensus behind such policy changes together with intense pressure to comply actually limits the scope for an objective *ex ante* evaluation of alternative policy scenarios.

It is still too early to evaluate the impact of PSIA on policy outcomes. Furthermore, the complexity of policy processes means that it is not always possible to trace a clear link between PSIA recommendations and policy outcomes. While short-term policy influence is important, the review emphasised the role PSIA could play in strengthening national policy processes more generally.

■
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Blind Spot: A Critical NGO Review of PSIA Practices

Despite the importance of PSIA for the policy-making process, the IFIs are not supporting developing countries adequately.

Too often the process is lacking and the analysis comes too late to feed into decision-making.

Even when the research is done on time, it is sometimes ignored by staff when designing IFI lending programmes and conditionality.

There is a real trade-off between fostering debate and the need to inform policies in a timely manner.

There is strong evidence that policies are more likely to lead to the reduction of poverty if they are developed with the participation of those they are likely to affect.

This is the intention behind the Poverty and Social Impact Analysis, a tool designed to ensure that governments can make an informed choice of policy direction, based on a full assessment of the consequences—intended or otherwise—on citizens of a range of alternative policies and projects.

Yet in spite of the obvious importance of PSIA for the policy making process—and that conducting them is the clear policy of both the World Bank and the IMF—these leading international finance institutions (IFIs) are neither supporting developing countries adequately in this process, nor carrying out the vital analysis themselves.

First, it should be observed that some impact analysis is being done by the IFIs; and some of it is being done well. There are positive examples in Ghana and Romania, for example (see Box).

However, too often even when it is being carried out, the process is lacking. It frequently has little influence on World Bank and IMF programme design and PSIA rarely explore different policy options. In many cases the *timing* of PSIA is wrong. Often the analysis is conducted after the reform has already been implemented or too late to feed into decision-making.

Even when the research is done on time, it is sometimes ignored by staff when designing their lending programmes. A World Bank review in 2006 found that project documents written by staff failed to make proper use of PSIA

assessments, merely including generic information on poverty in a country.

Further, only eight of the 35 PSIA examined by a World Bank review, gave a comprehensive analysis of distributional impact on both winners and losers. And the majority only looked at the positive effects of a reform.

The World Bank's PSIA guidelines say that the process should involve as many key stakeholders in the reform as possible, including civil society. However, a study carried out by the NGO Eurodad found that in many PSIA, researchers from the relevant country were involved only tangentially or not at all.

One of the key reasons for undertaking PSIA is to enable developing countries to have informed debate about their own development. However, much PSIA is never made public, preventing open and frank discussions of the pros and cons of different policy choices. While the IMF has carried out a limited number of micro-level PSIA, it has not made attempts to use these highly technical documents, and convert them into a tool for stimulating debate among the wider population.

So what would 'good' PSIA look like? Too often, the World Bank and IMF—and some bilateral donors—are put off because of concerns that it will cost too much and take too long. However, capacity constraints should not be an excuse for not doing this vital work. In the case of the World Bank, even a very simple approach, such as a desk study carried out by an in-country researcher, can deliver a preliminary PSIA while more complex approaches are developed.

At the IMF, there is much more scope for Resident Representatives and their

local staff to liaise with in-country researchers. And PSIA from outside the specific country should be read more widely across regions and organisational departments to improve understanding of possible consequences in the first instance.

While the IFIs have a responsibility to ensure that no major reform or project goes ahead without PSIA, they should not be conducting the analysis alone. Instead, the process should be driven from start to finish by the country—i.e. the government—in consultation with stakeholders including civil society, rather than by the IFI. This multi-stakeholder group, put together for the entire poverty reduction strategy process, should decide what is to be examined and lead the methodology design. Independent domestic researchers should play a leading role in the study with support from the IFI and donors. This has the additional benefit of developing analytical capacity in-country.

The World Bank together with donors should also provide increased funding to enable developing countries to conduct PSIA themselves. This would both allow Southern research institutions to carry out their own studies, and develop the capacity of the government to administer and manage

PSIA and so foster a greater sense of domestic policy ownership.

PSIA should consider a range of options rather than just serving as a way to make a particular pre-determined policy more palatable. An effective PSIA should be based on the idea that a reform or project entails a significant outlay for a government, and therefore needs to assess whether it is value for money in terms of the poverty impact. It should look at two or three different ways to achieve the same outcome, examining the effects of the poorest people of each. It could also include the cost to government and the trade-off this would entail against other expenditures.

PSIA should use both qualitative and quantitative techniques, for a full understanding of likely consequences. Assessing both the economic and social impacts of reforms on key income groups is crucial, particularly the poorest who are most vulnerable when change happens.

The study should be a genuine attempt to judge the differing impacts that a certain policy would have on different groups of people. This should specifically include a gender dimension as vulnerable women are affected differently by change than men are, even men living in the same household.

The PSIA process should be led by the government and involve civil society.

The timing of the analysis has to be right. As a report from the UK Department for International Development says: "In order to make a real impact on policy decisions, PSIA should be undertaken as early as possible prior to policy formulation. The potential policy options and trade-offs should then be considered on the basis of evidence, and the best solution identified."

Finally, the way in which PSIA is used is also vital. PSIA should not simply be a means to design safety-net programmes, or used to drive through conditionality, but instead be made available to relevant stakeholders—particularly the most vulnerable—to spark debate. This would mean that decisions made in the reform process are genuinely embedded in the needs of the domestic population, particularly those of the poorest, and that the trade-offs that the reform entails are acceptable. This is how to make effective, sustainable policy that will deliver results in fighting poverty in the long term.

Of course, PSIA cannot mask the fact that there are often no easy options in a reform process. And it is not cost-free. There is a real trade-off between fostering debate and the need to inform policies in a timely manner. Furthermore, impact assessment cannot annul politics or soften the clash of competing domestic interests. However, it can and should ensure that policies are made in a more informed way. And if a country really isn't ready to implement a change, there is plenty of evidence that it will not in any case be sustainable. Both IFIs should urgently address their failure to enact their own PSIA policies. ■

Blind spot: The continued failure of the World Bank and IMF to fully assess the impact of their advice on poor people. Joint NGO Briefing Note. Oxford, 2007.
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Some positive precedents

Romania: The government needed to restructure its mining sector in 2004. Aware that the closure of uneconomic mines had been triggering large-scale redundancies, the Ministry of Economy and Commerce asked for a PSIA. The analysis was developed in close partnership between the government and the World Bank. It examined the distributional impacts of the reform on mining and non-mining communities; gender impacts; and the distribution of wages and subsidies in the mining sector. It found, for instance, that women are more affected by the closure of mines than men, and to a greater extent than is the case with other professions. The study led to, among other things, the creation of a monitoring programme and a small grants scheme especially for women and young people.

Ghana: While the final list of subject matters for a 2003 PSIA was, in the end, selected by the donors including the World Bank and IMF (which insisted on petroleum pricing and electricity tariffs being added to the list), there had been a very good, inclusive process for choosing topics until that stage. The National Development Planning Commission—a government body that also oversees the Poverty Reduction Strategy—held a series of national workshops to discuss PSIA opportunities in the country, according to a Eurodad study. The final PSIA influenced the government's design of the petroleum subsidy and identified means to offset the negative impact of the reform on the poor.

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Thinking Things Through: Senegal's first PIA

The PIA process in Senegal was driven by national expertise only and involved significant stakeholder participation.

The process proved a perfect basis for discussing key issues and assessing poverty impacts of a planned industrial estate.

The project agency was impressed by the results, above all by the integrated assessment of the political and socio-economic impact chains.

This led to risk mitigating measures, capacity development for key agents in the impact chain, and amendments to the governance approach.

The case for planning by development results has been strengthened, and non-state actors have gained powers.

Senegal conducted its first PIA in 2007. This analytical tool—*ex-ante* Poverty Impact Assessment—was developed by donors in the OECD/DAC Network on Poverty Reduction to assess poverty impacts of projects and programmes. The subject of the PIA in Senegal was the Diamniadio Industrial Platform, a prestigious investment project of the Government of Senegal, which aimed to attract funds from i.a. the US Millennium Challenge Corporation (MCC). The PIA process was an insightful experience that has had a significant impact in Senegal.

PIA proved to be an attractive and very flexible tool in Senegal—like an analytical screen that applies to existing data. The PIA fit into tight planning schedules with no trouble; results were easily accessible and presented ready for deliberation. The tool has the further advantage of addressing economic and social issues alike: it demands analytical reasoning along a large number of transmission channels, such as 'prices', 'transfers' or 'powers'. Every part of the analysis is logically thought through and documented, so that ideas get easily across. Also, it forces you to come up with numbers and estimates of scale and to compare various impacts.

The PIA was a perfect basis for discussion of issues like: What type and size of impacts is Diamniadio likely to have on what group of people? What is going to happen to the workers of businesses while they are being relocated, which could take years? What share of new income will go to poor families, that is the bottom half of the country's households? How many migrants will come from rural areas to look for work? Will they be able to participate in the new economic activity? Will they leave their families? Will women find work and what type of work? Will land prices rise in

the longer run? How are neighbouring communities going to cope?

The availability of the PIA instrument, which is internationally recognised and thus not identified with any one donor, was a major factor in the success of the entire process in Senegal. The Economy and Finance Ministry, which leads the country's poverty reduction strategy process, and the state agency in charge of planning the Diamniadio project conducted the PIA process fully on their own terms.

To do this, a key concern was at first the adaptation of the PIA tool to the imperatives of the Senegalese context. They needed to transform the perceptible donor perspective of the original PIA by replacing some of the terminology; French translations of a few key concepts were changed and the formats of the PIA matrices were adjusted.

Furthermore, the process was driven by national expertise only—mostly economists, sociologists and planning officials from the two lead institutions, and some consultants. The institutions in charge also decided that there should be significant stakeholder participation. Thus, local governments and civil society organisations were kept informed about the planning process and invited at strategic moments, even though this meant more money and more time—and, of course, more questions asked.

Diamniadio was to be the star project under the new 'accelerated growth strategy'. It was not conceived as a particularly pro-poor project, but it was assumed to generate growth and employment in the agricultural, industrial and services sectors in Dakar and thus reduce poverty, too.

Optimistic estimates reckoned that within twenty years, 2,000 companies could be attracted to set up operations in the project area, which covered more than 6,000 hectares. Together they meant to create 75,000 formal jobs in an economy that only has about three times as many.

It was planned to mobilise \$1.2 billion overall, which corresponds to about a tenth of GDP. The public sector was expected to finance \$400 million, which represents about 15 per cent of the annual budget. This huge size of the Diamniadio project meant that the PIA addressed questions of national relevance: How can economic growth impact on poverty in our context? What are vital infrastructures for economic growth in Senegal? How realistic is this project and what can go wrong?

The Senegalese stakeholders had great expectations about the Diamniadio project and their hopeful attitude to the development results of the project sometimes tended to conflict with a straightforward analysis of possible impacts. In the end, however, they did identify and present a large number of critical points and risks of the Diamniadio project in a differentiated and measured way.

The head of the project executing agency was impressed by the results, above all by the integrated assessment of the political and socio-economic impact chains, which never before had been taken into account. Of particular concern was the predicted risk that the indigenous population in the project area would become marginalised, which could have wider, for instance ethnic, connotations.

The PIA also discovered that the project planning had not gone much beyond the perimeter of the project. The PIA analysed potential impacts in four concentric zones, the largest being the national economy. Thus, civil society stakeholders in the PIA process were particularly worried about the prospect of a massive influx of unskilled migrant workers into the area adjacent to Diamniadio that planners had not provided for. They were concerned that

these districts and villages lacked the infrastructure to absorb great numbers of immigrants and were at risk to be turned into shantytowns. Rising land prices near the project area were also a source of apprehension.

The PIA found that Diamniadio might create up to 23 000 jobs in five years, but the overall effects on formal sector employment would be mixed. In the short run, initial labour-intensive construction jobs would be offset by lay-offs in firms taking time to relocate to the project area; this would concern mostly women that made up 70-80 per cent of these employees.

“To start with, we were mainly curious to see how a Poverty Impact Assessment would work. Soon, however, the concrete assessment of the impacts of Diamniadio on poverty became more and more interesting, because this is a project that could play an important role in our country in the future.”

Informal sector employment would see important growth in the short term, levelling out in the medium term. However, the analyst groups expected unskilled workers to generally remain poor with their wages under continuous pressure from an incessant stream of job-seekers.

Surprisingly, PIA found that the strongest poverty reducing impacts of Diamniadio were expected through remittances from the newly employed to the poor. It is very common in Senegal that households with an income support poorer households, usually their extended families or villages of affiliation. The analysts estimated that on average a third of such income is transferred to the poor that way.

As a consequence of the PIA report, the project executing agency conceived a set of risk mitigating measures, such as developing the capacities of key agents in the impact chain, and envisaged critical changes in the project setup, such as amendments to the governance approach of the Diamniadio platform.

Today, the original Diamniadio project idea is no longer being pursued for reasons entirely extraneous to the PIA process. The project was discarded by the MCC after the announcement that a new, private economic free zone would be created in the vicinity of Diamniadio and with unusual legal provisions in its favour. The risk of top level political interference in the prominent project, which the PIA had qualified as being high, was thus confirmed by events faster than the analysts would have thought.

If the PIA had been done by external experts, its arguments may by now have been shelved and forgotten. But the officials and the stakeholders that conducted the Diamniadio PIA, and whose findings are spelled out in the PIA matrices, are still around. Many of the results—in particular the analysis of the transmission channels of growth and the social risks involved—remain valid and can be taken up to appeal for improvements of the new free zone project.

The experience proves the usefulness of a strong PIA process in a context where decisions can be unpredictable and project planning and execution are far apart. In this case, besides the training on the tool and the noteworthy results, there are more systemic impacts: the case for reasoning by development results has been considerably strengthened, and non-state actors have gained powers. In fact, NGOs began lobbying for changes in the project when the PIA work alerted them to the expected social risks; and then they campaigned openly against the closure, probably foreseeing that they would now be altogether excluded from discussing the economic free zone. ■

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Using PIA for Business Impact Assessment

PIA was used to study the impacts of four businesses operating in 'base of the pyramid' markets that serve the unmet needs of poor people.

This research will be valuable for mitigating risks of companies, improving their impacts, and communicating them to stakeholders.

Where projects are making positive social contributions, greater awareness and transparency on impacts should lead to more investment and success stories.

Impact assessment is an area of growing attention among NGOs, governments, donors, investors, and companies. The attention given by such diverse stakeholders has led to a proliferation in methodologies, indicators, and frameworks to measure impacts. Even the word "impact" means different things to different stakeholders. This created a challenge for the World Resources Institute (WRI), a US-based environmental NGO, which sought to measure impacts that would be recognized by the development community and private sector alike.

WRI promotes business solutions to serve the unmet needs of the world's four billion low-income people which constitute the Base of the economic Pyramid (BOP). Having helped to shape the dialogue on BOP business models through three international conferences—San Francisco in 2004, Sao Paulo and Mexico City in 2005—as well as numerous publications, an online information portal and the development of active BOP networks in Mexico and Brazil, WRI in 2007 undertook an effort to advance the assessment of broader impacts of BOP business activities.

After extensive research into the field of impact assessment, WRI learned that there was no established methodology in the private sector or the development community for measuring BOP business impact on poverty alleviation. We used the *ex ante* Poverty Impact Assessment (PIA; see page 3 above) to study the impacts of four businesses operating in base of the pyramid markets.

WRI applied the impact assessment methodologies to four BOP business projects. Each project combined desk research and data collection in the field to develop a preliminary report of social

and environmental impacts. The BOP impact assessment reports completed in August 2007 are currently under review by the companies involved.

The PIA process yielded interesting results for the four projects, which are summarised below:

Banco Azteca was formed 2002 in Mexico to target savings, credit, and other financial services to low-income segments of the population that traditionally have not been served by commercial banks. In 2004, it added the programme *Empresario Azteca* (Aztec Businessman) to support micro-enterprises and entrepreneurs through credits from Banco Azteca; it also provides business resources and consumer credit, and offers council and support through the Asociación de Empresario Azteca (ASMAZ), which integrates a network of medical discounts, legal council for citizens, protection against the abuse of authority, and enterprise qualification.

This study measured the impact of credit granted to entrepreneurs and micro-enterprises and how this credit has affected the health and wellbeing of these people and their families. Although the ASMAZ program reports a high potential to reduce poverty by strengthening different capabilities—specifically in terms of health care, legal empowerment and enhanced human capital—the study found it necessary to focus communication and marketing efforts to inform customers about these services.

This study finds advantages of credit for capital goods compared to common consumer credit. Customers receiving training through ASMAZ are better able to optimally use the credit. ASMAZ integrates public, private and

individual services, resulting in a positive impact in the reduction of poverty.

Masisa is one of the companies under the Chile-based multinational corporation GrupoNueva. It operates under a mandate that 10 per cent of business will be from BOP consumers. In Venezuela, carpenters in the renowned furniture-making town of Magdalena are facing economic risk due to a recent ban on harvesting saman wood, which is used in traditional artisan carpentry.

In 2006, Masisa developed a programme to train carpenters to use sustainably-harvested Caribbean pine fiberboard to make easily-assembled furniture for the BOP. In addition, they are working with women entrepreneurs to bring the furniture to market. In this study, WRI examined the initial impacts of Masisa's project across their value chain.

The majority of the BOP customers expressed enhanced living conditions, such as improved organisation, comfort, and pride in their home. Although the financial benefits to the carpenters and entrepreneurs have been minimal, both groups have expressed remarkable increases in knowledge, confidence, and overall optimism.

All three stakeholder groups have benefited from the diverse forms of micro-credit that exist throughout the supply chain. Masisa has also tapped into a new market, gained international recognition, and expanded networking as a result of this project.

Solar Electric Light Company (SELCO) is based in Bangalore, India. Since 1995, SELCO has sold 76,000 solar home systems to families in rural India. To reach these customers, SELCO has established relationships with banks to provide financing to make the systems more affordable. Other organisations provide training to help customers create better livelihoods with their electricity, e.g. sewing businesses.

The preliminary results of the study showed increased ability to save based on reduced expenditures from kerosene, direct current, backup batteries, and candle purchases. BOP customers were

more likely to take up entrepreneurial activities after gaining access to solar electricity than middle-income consumers. For the previously unbanked customers, establishing a credit history through taking a loan for the solar products is expected to have long-term positive impacts.

West Bengal Renewable Energy

Development Authority (WBREDA) is a nodal agency of India's Ministry of New and Renewable Energy Sources. It has established several hybrid power plants under a public-private partnership model to serve off-grid consumers in the Sundarban Islands off the coast of Kolkata (Calcutta). The plants generate power, which is distributed through a 'mini-grid' to 250-650 households, shops, schools, and government buildings.

Understanding how to measure impacts efficiently is necessary to ensure that companies have the information they need to address sustainability challenges.

WBREDA's intervention has improved income levels by extending business hours at night, improving opportunities for trade and commerce, opening avenues for self-employment, and enabling better education and health facilities in the region. Quantifying the financial and social cash flows generated by the Gangasagar wind-diesel hybrid power plant with 650 customers gave a net present value of \$1.5 million. The social return on investment (SROI)—the implied total amount of benefits for the society generated by every dollar invested in the plant—was \$3.55.

The Kaylapara solar photovoltaic-biomass gasifier hybrid power plant with 250 customers generates an overall financial and social benefit of nearly \$400,000. High investment cost, low tariff rates, and the limited number of customers being served contribute to low SROI results. However, the average

yearly income benefit for customers of both plants was \$411, nearly double the \$453 annual income of non-electrified homes. While these results are preliminary due to the limited scope of the study, they demonstrate the usefulness of the methodology and indicate important development impacts of the project.

In conclusion, this research will be valuable for the companies in improving their impacts, mitigating risks, and communicating their impacts to stakeholders. Where projects are making positive social contributions, greater awareness and transparency on impacts should lead to more investment and success for these businesses.

WRI recently learned that Banco Azteca, one of the study subjects, launched additional focus groups with customers after reading the preliminary results of the impact assessment to better understand and mitigate risks that were identified. Banco Azteca reported that they found the impact assessment results and process so useful that they will now develop a protocol based on the PIA methodology to continually monitor their impacts.

WRI has identified useful resources to answering questions about our effectiveness in addressing environmental and social challenges. Starting from a broad look at indicators and methodologies, work will continue with external experts in this field to ensure that our impact assessment processes are current and credible.

WRI plans to bring impact assessment into its work on a consistent basis in order to identify the most successful interventions over time as well as the success factors of partner companies and investors. These results are being shared with others in order to encourage companies to consider their impacts and attract more capital into sustainable business models.

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