

Review of Poverty and Social Impact Analyses (PSIAs) carried out with German Support in Malawi, Ghana and Cambodia

- Summary-

I. Background

Poverty and social impact analysis (PSIA) is a new approach to assessing policy impact on poverty reduction. PSIA analyses the effects of specific reform measures on the welfare of various sections of the population, particularly poor and underprivileged groups. PSIA is not a standardized instrument; it is a flexible approach which incorporates three core elements: a methodological framework that encompasses the major analytical areas and steps, a broad and open-ended set of tools, and a dialogue process which aims at linking the analysis with policy debates and decision-making processes.

By analysing the distributional impacts of reform measures, PSIA seeks to contribute to improving the analytical underpinning of poverty reduction strategies (PRSs) and aligning reforms more towards poverty reduction. By facilitating discussion on specific reform steps, PSIA offers the opportunity to expand the PRS participation process beyond general consultations that usually lack a clear focus. It is part of the new operational policy of the World Bank for development lending. For civil-society organizations but also for bilateral donors, the PSIA approach offers a possibility of more involvement in conceptual debates on reform measures and of making policy decisions and World Bank recommendations transparent by promoting public debate on their poverty impacts.

German development cooperation has taken part in piloting and developing the approach by supporting a PSIA on the privatisation of the Agricultural Development and Marketing Corporation (ADMARC) in Malawi, where it financed and backstopped the qualitative component of the analysis and the dissemination of the findings. Two other PSIA measures have been promoted by the German side: Decentralization in Ghana with joint

participation of KfW and GTZ, and Land Reform in Cambodia, which GTZ supported in cooperation with the World Bank. The three pilot measures were evaluated as part of a measure in the multisectoral poverty reduction project. The findings are summarized in this document.

II. PSIA on ADMARC in Malawi

The privatization of ADMARC was one of the key components of the Malawian PRSP and a conditionality of the World Bank and the IMF. It is and has been the subject of keen controversy, however. On one side, ADMARC is seen as a institution that makes a substantial contribution to food security in Malawi. On the other side ADMARC's inefficiency in administering and selling maize reserves, allegations of corruption, the heavy burden the ADMARC conglomerate places on the public budget, and the crowding out of the private sector from agricultural marketing activities are cited in favor of its privatization.

The PSIA was initiated by the World Bank to assess the possible effects on rural households of privatizing or closing down ADMARC markets. The study consisted of a qualitative component, which was financed by GTZ and overseen by an expert assigned to the World Bank, and of two quantitative analyses. The analyses demonstrated that ADMARC improved access for rural households to a fair market for purchasing maize, seed and fertilizer, and that the proximity to ADMARC markets had a beneficial effect on consumption in rural households, particularly in remote regions.

A criticism of this PSIA, voiced above all by civil society organizations, was the low participation by the government and the delayed publication of the findings, which did not take place until after the adoption of a law by parliament providing for the commercialization of ADMARC.

Nevertheless, the PSIA made a decisive contribution to placing ADMARC's importance for food security on the World Bank agenda. We may assume that the PSIA has influenced the sequencing of the reform and thus contributed to reducing the social costs that would have been incurred by privatizing rural markets.

III. PSIA on Decentralization in Ghana

Visible progress in decentralization by the Ghanaian government was part of the Poverty Reduction Strategy Credit (PRSC) conditionalities for Ghana. In a workshop with participants from government and donor institutions decentralization was selected as one of five priority topics for a PSIA and German Development Cooperation (KfW/GTZ) decided to support this PSIA. For every PSIA, a steering committee was organized at policy level and a technical committee at sectoral level. These committees were to backstop the implementation of the analyses and the utilization of the findings.

The PSIA aimed to analyse the effects of decentralization reforms on the poor. The study was intended to help in weighing up policy alternatives, making recommendations for the sequencing of the reform, identifying risks, and designing mitigation measures for possible adverse impacts. The central questions were related to the four key aspects of decentralization: resources, capacities, legal mandate and participation and partnerships at district level.

The completion of the study was itself a PRSC “trigger”. Tensions emerged between the need to deliver the study on schedule and the time taken by consultations in the coordination framework. Added to this was the limited experience of the national expert consultants with the PSIA approach, and the only sporadic backstopping by an expert familiar with PSIA. As a result, the quality of the study did not live up to the expectations of the stakeholders.

Despite the formal leadership of the PSIA by the government, there were doubts as to its interest in valid statements about the connection between decentralization and poverty alleviation. As the quality of the findings and recommendations was not a criterion for meeting the PRSC trigger an incentive to press for an improvement of study contents was missing. While the findings of the PSIA were included in the PRS progress report, the general nature of the recommendations and their weak analytical substantiation detract from their relevance for policymaking.

IV. PSIA on Social Land Concessions in Cambodia

Limited access to land is one of the most important causes of poverty in Cambodia. There has even been an increase of landlessness in recent years. The non-transparent legal framework and its lack of implementation, fears about escalating land disputes and uncertainty about the necessary conditions for and possible consequences of social land concessions have hampered the development of a coherent and effective social land reform programme.

The proposal for conducting a PSIA came from the World Bank, but the analysis was carried out as a joint project of the Cambodian Ministry for Land Management, Urban Planning and Construction (MLMUPC), the World Bank, OXFAM and GTZ, and backed up and coordinated by an international expert. The aim of the PSIA was to analyse the impacts of the social land concessions on poverty and the preconditions for the successful implementation of such a land reform programme. This included assessing the extent of landlessness and the causes of its spreading, analysing the potential impacts of distributing social land concessions on poverty, the necessary institutional arrangements and infrastructure, as well as identifying the land available for social concessions and its suitability for sustainable agricultural use.

The PSIA consisted of three components: a qualitative analysis of landlessness and its causes (OXFAM), a survey of the available land for redistribution through social concessions (MLMUPC), and a study of the possible institutional arrangements and the possible consequences of the programme for social land concessions (research institute: Agribusiness Institute Cambodia - ABiC). The research proposals were discussed from the outset in various workshops in Cambodia and at the World Bank head office. A large number of different stakeholders were therefore involved in specifying the topic and methodology and in evaluating the findings of the PSIA. The results of the studies were discussed in a broad dissemination workshop and documented in a workshop report in English and Khmer.

The participatory procedure was crucial in ensuring buy-in from the government. By promoting dialogue between government and civil society the PSIA contributed to building

alliances for moving the land reform agenda forward. The findings of the study will be used in designing a new World Bank programme to support land reform, in which German development cooperation will also continue to take part via the technical cooperation programme on land management.

V. Lessons learned for the methodological approach

In practice, we are rarely concerned with narrowly defined reforms, but rather with reform packages whose success in turn depends on other complementary measures. Deciding on the '*adequate*' complexity of the subject of the analysis is difficult when designing a PSIA. Before the actual analysis it is important to identify the *core problem* that can be crucial for the success or failure of reform and focus the analysis on that. In any case, the choice of the specific focus must be made transparent and comprehensible for the stakeholders.

The central research topics as well as the data-acquisition and analytical instruments to be applied should be explained in a *draft concept note*. This is a way to make sure that the different components of the PSIA are based on the same premises and complement each other. It is important to review secondary literature on the topic *beforehand* and to account for experience from other countries where possible. In this way you can make sure that existing data and information are utilized and avoid duplication. It also substantially reduces the costs of gathering primary data.

In practice, it is often difficult to deal with complex questions in a rigid analytical scheme, so it is important to handle the PSIA instruments in a flexible way. *Rather than an instrument* with a standardized flowchart, PSIA is a *way* of analysing the distributional impacts of a policy.

The pilot cases have also confirmed the value to be gained by combining quantitative and qualitative analyses. Qualitative instruments are used to postulate hypotheses that can be validated by quantitative methods or that contribute to constructing quantitative models, identify unforeseen impacts or risks, complement the conclusions of the quantitative analysis, and also compensate for possible lack of quantitative data.

We generally recommend focusing *more on impact flows and chains* (not just impacts themselves). This means not just analysing statistical correlations between aggregate variables, but directing more attention to how these interconnections arise. Major elements in these impact flows are the institutions and the organizations that influence or determine the implementation of reform. The changes which occur through the transmission channels cited in the World Bank's PSIA User's Guide (prices, employment, access, assets, as well as state transfers and taxes) depend heavily on the institutional set-up.

VI. Lessons learned for designing the PSIA process

The three cases examined reveal a very different picture of participation by government and civil society in the respective PSIA.

Appointing formal steering bodies with the participation of government institutions is no guarantee for national initiative. On the other hand, even where government has not been the prime initiator of the PSIA, government ownership can become considerable in the case of a politically and publicly relevant reform and a participatory process.

However, government steering of or substantial participation in the PSIA can result in important but overly *political questions*, which could entail major criticism of the government, being left out of the analysis and/or the discussion. In controversial reforms with potentially high poverty impacts, it is worth conducting a PSIA even if government has no keen interest in it. Donor partners in this case can also be civil society organizations that publicize the PSIA and its findings and thus make a major contribution to the debate.

Steering committees can be good consultation mechanisms. However, it is always important to appoint a person/organization, ideally with proven PSIA competency, to play a lead role. A PSIA can contribute to strengthening broad agreement on a certain reform measure, but all the design steps cannot be made contingent on consensus. This makes a PSIA process very difficult to steer and can lead to considerable delays and result in the study being overloaded.

Consideration must always be given to the contrary demands placed by the *urgency* with which policy decisions must sometimes be taken, the need for consultation amongst the stakeholders, and the requirements of a sound and thorough analysis. This must be made clear from the start and the time schedule or the scope of the PSIA must be *adapted* accordingly in order to be *realistic*.

Often there is also a discrepancy between national participation and steering, the high complexity of the research topic, and the quality standards a PSIA must meet. That is why a PSIA study should be flanked by capacity-building measures and/or advice and support to the government institutions involved to enable them to manage this kind of process. In countries with limited research capabilities, international expertise should be assigned on more than just a sporadic basis; if possible it should even take the lead. To promote the participation of local experts, capacity-building measures for national expert consultants should be made a component of the PSIA scheme, i.e. included in the budget and schedule.

Successful approaches have proved to be combining financial and technical support of World Bank PSIA's and/ or especially advising the partners and strengthening their capacities to participate in the PSIA via ongoing technical cooperation projects. To assure the relevance of the findings for the German development cooperation portfolio itself, the topic of the PSIA must belong to the German priority sectors in the country and the German field offices must bear principal responsibility for the PSIA. In this way, better use can be made of the comparative advantages of German development cooperation - partner proximity, process and implementation competence - for anchoring the PSIA at partner country level.

VII. Conclusions

The PSIA for Malawi and Cambodia have both yielded important findings for the design of the reform. By publicizing these - albeit in different ways - they have brought about changes in the position of the key stakeholders and hence made an important contribution to the respective policy discussions and decision-making processes. They have managed to highlight underestimated problems and thus to focus the policy debates on key issues for the success of the reforms.

Implementation of the envisaged reforms is at an early stage in both Malawi and Cambodia. Further studies will be conducted in both countries to answer the main questions remaining. The basic recommendations of the PSIA cannot be ignored in future reform planning, but they are still awaiting practical implementation.

PSIA has proved to be an effective and professional approach to assessing the poverty impacts of reform measures. Its main features are:

- Focus on specific, usually impending reform measures by partner governments
- Explicit aim of linking reform and poverty reduction
- Empirical depth of the analysis
- Linking analysis with policymaking processes

The key value added of PSIA results from *linking* these features *with each other*. This way, a PSIA helps to analyse the fundamental assumptions underlying the reforms and reveal their weak points or information gaps. On the one hand, this lays the foundation for orienting reforms more closely to poverty reduction. On the other, it can shed critical light on the positions of different stakeholders, and by publicizing the findings it can curtail the definition power of the World Bank, but also frequently that of government, and oblige these to address critical elements more explicitly when implementing reform.

The PSIA approach, however, cannot help prioritise between a great number of reforms and programmes in different sectors. This needs to be done through political processes like

the PRS consultations. Other analytical instruments are needed to underpin these sorts of decision. At the same time, a PSIA cannot answer at once all the questions connected with designing and implementing complex reforms, either. Rather, it forms part of a longer cycle of analysis - policymaking - implementation - monitoring - analysis - policy adjustment that has to be integrated into the PRS cycles and consultations. In order to promote the sustainability of such a process, it is important to support public debate about reform and reform steps as well as actual implementation in the longer term. This is where the potential lies for greater PSIA participation by German development cooperation, which is well positioned to support such longer-term approaches through its technical cooperation projects.

VIII. Recommendations for German development cooperation

The three pilot cases indicate that PSIA can contribute to promoting cooperation between German bilateral and multilateral development cooperation. However, Malawi and Cambodia have also shown that joint PSIAs are most likely to be conducted where cooperation and communication mechanisms have already been established amongst the institutions. On the other hand, both PSIAs have also contributed to sharpening GTZ's sectoral profile and placed it in a better position as a dialogue partner for the World Bank.

At policy level, attention should be paid to the transparency of the (World Bank) PSIA processes generally and to the actual implementation of the PSIA recommendations by governments. This can be done in different forums where German development cooperation has a negotiating mandate, such as intergovernmental negotiations, negotiations on SSPs, donor coordination meetings or symposiums, participation in programme-based development approaches, or through the statements on WB lending decisions of German executive directors at the IFIs.

PSIA can make an important contribution in projects and programmes with high-profile policy advice components at macro level. This applies both for sectoral programmes and for PSRP advisory projects. To be able to intervene in politically pressing and highly controversial issues, however, it is vital to remain responsive to the demand for PSIAs

even where the financial scope in existing projects is limited (e.g. through using the Study and Expert Fund or other potential funds).

PSIA is of high relevance where German development cooperation participates in different forms of programme-based approaches, above all in PRSC co-financing, budget or basket financing. Here, PSIA can provide important information to the donors involved about the actual pro-poor orientation of the supported policies and reform measures.

Through high institutional anchoring at a policy level, PSIA can also make a crucial contribution to raising the visibility of German development cooperation in priority sectors. The findings of PSIAs carried out without German support could also be utilized by German development cooperation projects. Important here is dialogue with the government and civil society, as well as cooperation and experience sharing with other donors on PSIA-type analytical work. Analytical instruments to improve the design and pro-poor focus of the German development cooperation portfolio can be developed based on the principles, instruments and experience of PSIAs.