

# Ex-Ante Poverty and Social Impact Assessment 4 the Crisis

## POLICY PAPER

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With the increasing globalization of the economy the world will probably face more crises in the future. During the last ten years Asia experienced four major crises in short succession: the regional financial crisis, the fuel, food and now the global financial crisis resulting in a slowdown of the global economy. At the same time the economic cycles of ups and downs became much shorter than in the past.

It is predictable that the fiscal space for responding to such crisis situations will be reduced in the future. Currently there is quite some fiscal space for policy responses in many countries. The G20 promised another \$1.1 trillion for aid. However, almost all this money is in the form of loans. So, many countries will face again enormous amounts of debt which will reduce the fiscal space in the future – with probably more crises to come. And, also in the traditional donor countries fiscal space will be markedly reduced as a consequence of the crisis and the huge fiscal stimuli packages enacted.

In this context it becomes ever more important to get the decisions right. The challenges with regard to poverty and social development are then:

- to use the available fiscal resources to buffer the social and economic implications of the crisis as effective as possible and to
- to find the right balance between acute shock absorption and building up social and economic resilience in the medium term.

This paper will introduce ex-ante poverty and social impact assessment as an approach which supports policy makers in finding the right answers to these challenges. We will focus on two proven approaches, namely PSIA and PIA.

### 1. What is PSIA/ PIA and what do they Contribute to Decision-Making?

PSIA (poverty and social impact analysis) and PIA (poverty impact assessment) are approaches for analyzing the distributional impact of policies, programs and projects on the well-being of different population groups and especially the poorer ones. PSIA has been developed by the World Bank with a great deal of international cooperation including UNDP, and PIA has been developed by the OECD-DAC Poverty Network. Both approaches can be applied ex-ante, before decisions are taken.

Poverty and social impact assessment mainly contributes in four aspects to the policy making process. It

1. tells something about the **real living conditions of people** - poor people and others
2. assesses social implications **ex-ante** and – if necessary – also **relative fast & roughly**
  - a. via rapid data collection methods
  - b. via tools and approaches to facilitate group discussion and assessment
3. **compares policy options** regarding their social impacts
4. and combined with **smart process facilitation** social impact assessment helps to get traction with evidence and a social perspective on the actual policy making process.

## 2. Showing the Impacts on Real People's Life

Statistics trace changes in prices, wages and employment on an aggregate scale, e.g. for the nation, a region or a sector. Economic modelling traces the overall effects of changes in growth on different parameters, also on an aggregate scale. With these tools of statistical and economic analysis we can calculate expected poverty effects. ADB estimates, for example, that the number of poor households will increase by 300.000 in Bangladesh and 660.000 in Indonesia as a result of the current crisis.

These are important figures; however, when designing a differentiated response to this we need to know much more. We need to know what this means for the daily living of different social groups in Bangladesh or Indonesia. Social impact assessment does bring out exactly this kind of evidence.

It follows through these phenomena from the aggregate level right down the impact chain to the household and assesses the social and economic implications there. PSIA and PIA answer questions like:

- how do people experience the impact of the crisis ?
- how do they assess the importance of different transfers and social services for their livelihood strategies in the context of the crisis?
- how would certain response measures impact on their real living conditions?

The analytical core of both approaches is an analysis of transmission channels. These delineate the most important mechanisms through which changes induced by an economic crisis or a reform or a program affect the well-being of different social groups.

The chart on the following page shows an example of a PIA transmission channels analysis which was part of the preparation of a bilateral program of GDC with Cambodia on Regional Economic Development in the Green Belt Siem Reap Province in 2007.

The assessment looks at a planned handicraft component of the program and concludes that, overall, it will probably have a positive impact on poorer groups. In the short run, however, there will not be much change to be seen. This is reflected by the 'zero' entries in the respective column. In the medium-term there will be opportunities for positive impacts if decisive additional measures are taken and budgeted and certain risks can be avoided. This is mirrored by the plus signs and green shades in the fifth column. The analysis reveals for example, that poorer groups will get only better access to markets if the program deliberately brings in new partner organizations to provide access to micro-credit, finds an innovative way to provide producers with relevant information on demand and prices and if the planned road improvement will be realized— so that remote communities get connected. This kind of information is essential for the planning of a regional economic program if it wants to achieve poverty reduction and equitable development.

**Ex-ante PIA for Program on Regional Economic Development in the Green Belt Siem Reap Province in Cambodia, 2007**

Transmission Channels & Details		Relevant Transmission Channels	Results by Transmission Channel					
		Details & risks that may influence the effectiveness of this channel for intervention	Short Term	Med Term	Details & risks that the results will not be achieved			
<b>Prices</b>	Production	Increased prices could be expected for better quality handicrafts (which respond better to markets).	0	+	Fair trade conditions must prevail for people to get reasonable returns on their labour.			
<b>Employment</b>	Informal	Opportunities for self-employment created.	0+	++				
<b>Transfers</b>	Subsidy	Provision of subsidies for credit, for inputs.	+	++	Indirect subsidies also required in terms of quality maintenance, ongoing training & supervision.			
<b>Access</b>	Information services	Market information services need to be provided.	0+	+				
	Micro-Credit	Extension of micro-credit services	0	+	Willing partners must be found for this.			
	Markets	Opportunities available, but barriers to entry may be very high	0	see comment	If expected road improvement doesn't take place, remoter areas will not have adequate market access.			
<b>Authority</b>	Formal organizations	Creation of Producer Associations or Cooperatives. Activation of Commune Councils to support poor producers.	0	+	Commune Councils v. little experience with livelihood support projects (know small infra. Projects thru SEILA)			
<b>Assets</b>	Physical	Increase in tools/equipment and maybe small buildings required to produce handicrafts.	0+	+	Some of these assets may be held/used on a collective basis.			
	Natural	Planting/management of raw materials required for handicrafts.	0	+	Must be part of overall community-based NRM improvement strategy.			
	Human	Improved skills, knowledge on production, credit and marketing.	+	++	Training is easy; ensuring product quality over time is not;			
	Social	Informal groupings of producers.	0+	+				
	Financial	Improved savings, improved use of credit.	0	+				
<b>KEY</b>		Strength/direction impact	++	+	0+	0	-	--

### 3. Assessing Poverty and Social Impacts Fast and Roughly

So far, PSIA and PIA have mainly been applied in the context of policy reforms and aid programming under 'normal' conditions. UNDP currently supports 11 countries and a region to undertake PSIA projects<sup>1</sup> to help identify the impact of the economic and financial crises and to generate policy responses to mitigate human development impacts. In Asia these are Uzbekistan, Armenia and the Philippines.

- In the Philippines a PSIA looking at the effects of the economic crisis on major vulnerable groups, esp. the overseas workers and export industry workers. It will analyse impacts on health, nutrition, housing, consumption patterns and coping mechanisms. The findings will feed into ongoing policy formulation (Economic Resilience Plan) and the implementation of various social assistance and safety net programs.
- In Uzbekistan the global crisis generated massive migration to cities and impacts on urban poverty in. The PSIA will analyze the shift from rural to urban poverty in the context of the current crisis and identify policy instruments to minimize urban poverty.
- In Armenia the Ministry of Labour and Social Affairs with technical support from the National Statistical Service (NSS) conduct a representative vulnerability assessment in order to identify those most in need and the main determinants of their vulnerability. The PSIA shall quantify the impact at household level and help to design effective and efficient response measures.

These PSIAs are being completed within four months to ensure the relevance of findings to crisis policy measures. PSIA and PIA provide tools which can speed up poverty and social impact assessment in various ways.

PIA has been designed explicitly to provide quick and rough estimates on poverty and social impacts, and focuses more on program or sub-sector level. PIA seeks to get as much guidance as possible out of the data and analyses available and does not include primary data collection or research. It comes with a methodology which supports a structured analysis of poverty and social impacts. PIAs can be done by the technical staff of the relevant organisations themselves if supported by adequate facilitation. It does not necessarily need external inputs.

PSIA aims at informing policy reforms. It provides a methodology for more in-depth impact analysis and usually sets out for additional analysis and/or data collection. It offers a range of proven tools for economic as well as for social and institutional analysis and data collection, with some particularly useful to produce rapid results, e.g. focus group discussions, rapid survey approaches, etc.

### 4. Comparing Policy Options

Poverty and social impact assessments help to generate policy options and guide decision-making on the best mix of policy measures. To illustrate this point we will look at an PSIA example from Armenia.

Under the implementation of the Armenian PRS in 2003 one hot issue was how to reduce poverty due to unemployment in the country. Against a background of 'jobless growth', high

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<sup>1</sup> Studies are being conducted for countries in Eastern Europe, Africa, East Asia, the Caribbean and the Middle East- Moldova, Armenia, Lithuania, Kiribati, Syria, Philippines, Namibia, Morocco, Uzbekistan, Ukraine and Paraguay. A regional study for Barbados and Eastern Caribbean is also being conducted to identify the impact of the crisis in Antigua and Barbuda, Barbados, Dominica, Montserrat, St. Christopher and Nevis, Saint Lucia and St. Vincent and the Grenadines.

rates of unemployment, high out migration and reliance on remittances the PRS entailed a set of policy reforms for the social sector, e.g.

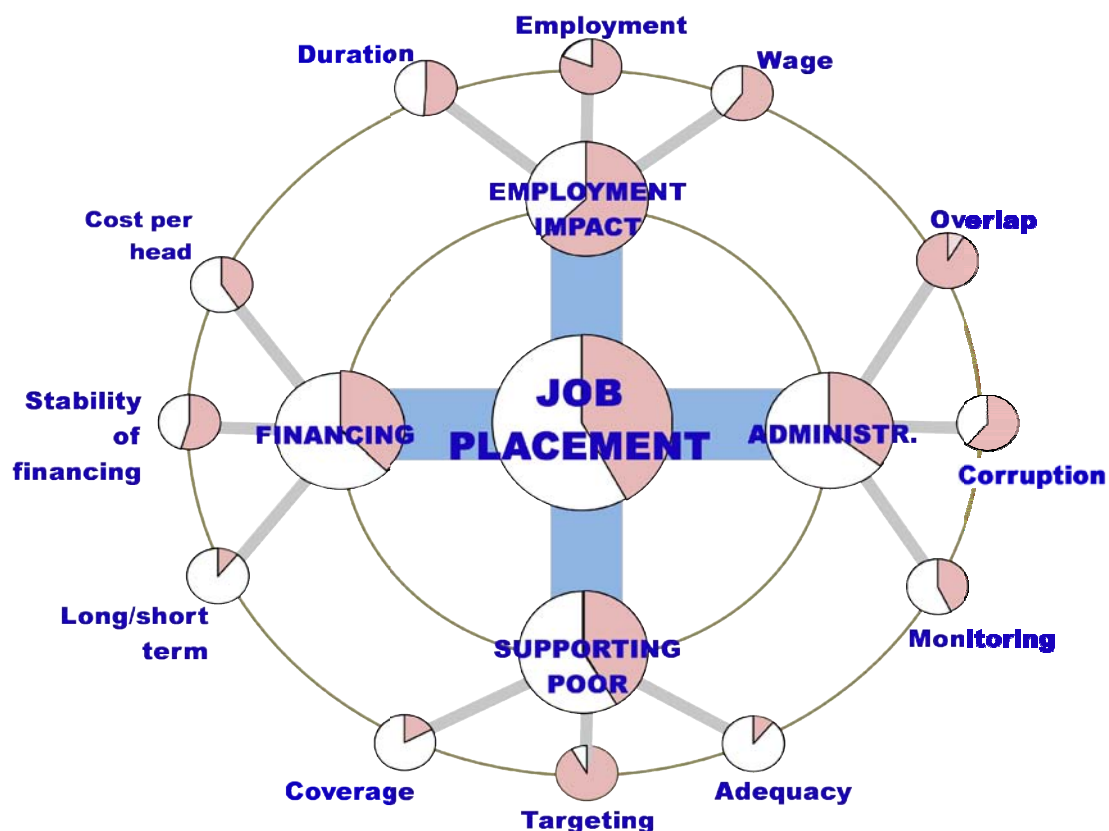
- phasing out of unemployment insurance, cancellation of one-time family benefits
- introducing more active labour market policies, such as job placement, etc.

There was massive disagreement about these proposals amongst decision-makers from various organisations. The questions to be answered by the PSIA were:

- which set of policies was more likely to have better effects with regard to poverty reduction?
- is the policy designed at the capital producing the expected results on the ground?

To get to an answer to these questions a working group was set-up, with two departments of the Social Ministry and the Labour Agency. PSIA was adopted as approach to create decision-supporting evidence on these questions. And an advisor was invited to facilitate the analysis and the decision-making process. Furthermore, the task force chose a software tool to assist with comparing policy options.

The following graph depicts the assessment of one of the various policy options under discussion, in this case 'job placement'.



In the inner circle the graph shows the four main criteria which were agreed upon by the Armenian task force to be used to guide decision making. These were: employment impact, supporting poor, financing and administration. Each criteria was defined by a set of sub-criteria, those in the outer circle. For comparison all different options were scored along

these criteria. The higher the score the larger the rose part of the pie. The actual scoring was informed by the evidence generated by the PSIA and consisted of:

- a macro model (PAMS, Poverty Analysis Macro Simulator)
- a quantitative analysis of existing household surveys
- two qualitative case studies on social and labour market relations.

In the case of 'job placement', the assessment revealed for example:

- an overall low impact of this policy option on poverty reduction;
- especially a low impact on the poor; however, it constitutes 16% of overall income for those who receive it; but: 20% of the benefits go to the richest group of people
- an high employment impact; however, this was relevant only for a small percentage of the poor;
- it also shows that there was ample room for improvement regarding administrative efficiency and solid financing.

In case of social transfers (not in this chart) the analysis exhibited a high redistributive impact but also a big challenge regarding administration and financing; e.g. the delivery of social benefits through the postal system in Armenia turned out to open doors for petty corruption at the receivers end, making social transfers extremely expensive.

Ex-ante poverty and social impact assessments can help to generate different policy options and assist in comparing the options in view of the evidence at hand. PSIA and PIA provide various tools which to support this process, e.g. assessment matrices, scenario techniques and software tools, as the one in the Armenian example.

## **5. Grounding Decision-Making in Evidence**

Policy processes are multi-stakeholder negotiation processes. Usually, policy options are examined in the light of institutional and political interests. Organisations administering certain programs and serving certain clients often tend to reserve their or their clients' share of the cake irrespective of issues such as effectiveness and performance on the whole, as it was the case in the Armenian example where the labour agency and the social administration were opposing each other and finally found themselves deadlocked. In times of crisis and under high time pressure this pattern seems to be even reinforced.

In the Armenian case three aspects were essential to mitigate this:

- The main – and also opposing – stakeholders were engaged in the assessment of the different options, often in common sessions at the same table.
- The main relevant dimensions for decision-making – social impacts, institutional performance and financial aspects – were considered and worked through in a comprehensive format.
- Assessments had to be argued on the basis of the evidence generated and a common and agreed set of criteria.

This set up was fundamentally different to the usual one where each stakeholder group presents studies she or he commissioned – or the respective donor partner commissioned – which take on a purely social, or a purely fiscal or a purely macro-economic perspective. This leaves little room for substantive dialogue. Evidence comes on different levels, with different focus so that it is hardly possible to find common ground and come to a balanced assessment. The process evolving from this setting usually equals more an exchange of preconceived judgements and the 'winning' argument is that one which can be underpinned by the strongest power position.

PSIA and PIA can help to mediate the political negotiation process and open up room for more technical and evidence based discussions and – hopefully in the end - decision-making. They achieve this by:

1. providing frameworks and tools to generate good enough evidence on the likely poverty and social impacts
2. combining this with smart process design and facilitation.

There is no golden standard to this, but quite some experience to build on. The following examples illustrate different process designs and features.

- Poverty and social impact assessments can be done by a working group composed of decision makers and/or technical staff of the relevant ministries or programs. The group can involve also stakeholders from different – and even conflicting – organisations. The process needs thorough facilitation, sub-groups do the analytic work themselves and rely on the existing evidence. PIA provides tools to facilitate such a process. These assessments can be done quite fast, in a couple of weeks.
- Poverty and social impact assessments can be conducted by working groups with research inputs from independent consultants/ think tanks, similar to the Armenian PSIA case. These processes take at least a few months, in the Armenia case about a year.
- Poverty and social impact assessments can also take the form of studies commissioned by individual decision-makers or stakeholder groups, conducted by independent researchers/analysts. These assessments feed into other ongoing discussions and decision-making processes. Depending on the volume of new analysis and data collection these studies can be quick – about 3 weeks - or time-consuming.

The methodologies of PSIA and PIA are extremely flexible. There is no single fixed format. They have to be tailored to the specific set-up, the questions to be answered and the political circumstances given. However, they can be done quickly and they can assist to ground the political debate and decision-making in evidence.

## 6. Invitation to Ex-Ante Poverty and Social Impact Assessment

As in normal times PSIA/ PIA can support decision-making in the wake of crisis. The questions and challenges are basically of the same nature.

There is ample technical experience and support available for poverty and social impact assessment:

- **Methodology:** there are excellent materials supporting the technical analysis
- **Tool Kits:** the whole range of economic and social science tools useful for PSIA is nicely compiled in two sourcebooks and one compendium with examples by the World Bank
- there is also a wealth of **rapid methods** of social analysis which trace the effects at the recipients end of the impact chain as well as at the meso-level of institutional performance
- **Smart process design and facilitation:** there are experienced and skilled facilitators and consultants for PSIA and PIA

You can find all kinds of support at:

- PSIA website at the World Bank:
  - <http://www.worldbank.org/psia>
- PSIA website at UNDP:
  - [http://www.undp.org/poverty/topics2\\_social\\_impact\\_assessment.shtml](http://www.undp.org/poverty/topics2_social_impact_assessment.shtml)
- PIA website at OECD-DAC
  - <http://www.oecd.org/dac/poverty> and here click on poverty impact assessment, or:
  - [http://www.oecd.org/document/12/0,3343,en\\_2649\\_34621\\_36573452\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/12/0,3343,en_2649_34621_36573452_1_1_1_1,00.html)

- German Development Cooperation, websites,
  - <http://www.gtz.de/en/themen/soziale-entwicklung/soziale-sicherheit/14052.htm>
  - provision of facilitation for PSIA and PIA processes