



**German Agency for Technical Cooperation (GTZ)  
Comments on:**

**A User's Guide to Poverty and Social Impact Analysis (Draft)  
World Bank**

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The GTZ welcomes the introduction of the Poverty and Social Impact Analysis (PSIA) in both its essential aspects:

- the analysis of major, structural, economic reforms as to their social impact and the distribution of this impact across socio-economic groups
- the performance of the analysis *prior to* the execution of the reform.

In these ways, PSIA represents a major step forward compared to earlier policy design and implementation, in particular as they were carried out under the Structural Adjustment Programs (SAP). That the World Bank has presented a comprehensive User's Guide so quickly after taking up the approach underlines the Bank's commitment to it. The same holds for the fact that a number of reforms in partner countries are, indeed, subject to ex ante analysis using PSIA, such as Malawi's ADMARC reform. German Technical Cooperation is determined to support the World Bank in making PSIA a success and to collaborate on the approach in partner countries wherever appropriate.

The opportunity to comment on and offer suggestions for the further development of the World Bank's "A User's Guide to Poverty and Social Impact Analysis" (draft version of 19 April 2002) is a good step towards this end. All in all, the GTZ finds the draft Guide to be a laudable product. Especially commendable is the emphasis the Guide places on country ownership of the approach, as well as the framing of the PSIA within the understanding of policy-making as an ongoing process. The latter means that reforms benefit greatly from ex ante analysis, and also from continued impact/outcome monitoring for the purposes of fine-tuning implementation and (when necessary) policy reformulation.

Furthermore, the Guide is geared towards practical application. The reader is presented briefly but adequately with a solid conceptual framework, then is walked through ten elements of a good PSIA. This provides the user with a basic understanding of the approach, a direction to work in, and a selection of tools with practical advice on which ones to choose under the prevailing circumstances and for the specific reform measures in question. The summary matrix provided at the end promises to capture most of the pertinent information in a clear and transparent way.

GTZ experience with the design and development of M&E systems (e.g., Guinea, Malawi, Kenya) confirms the pertinence of the issues raised in the Guide. Moreover, the GTZ finds that most of the key issues have been addressed by the Guide – we have only very few to add. However, while essential "ingredients" of a good PSIA are presented along with the (potential) drawbacks of the methods and the often non-favorable conditions prevalent in many partner countries (lack of capacity, poor quality of existing information, etc.), we feel the Guide does not achieve a realistic balance between the advantages and shortcomings of the approach. In other words, there are some areas which the Guide treats rather cursorily that we find should receive more attention. Our recommendation is to adjust the focus and stress certain topics more.

GTZ comments of the draft User's Guide highlight three main issues:

- the criteria for selecting methods to be used in the PSIA
- the need to root PSIA in existing M&E Systems
- the near silence on the political nature of policy monitoring exercises.

In addition, we suggest a few more issues to be taken up in the Guide and make some technical comments.<sup>1</sup>

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<sup>1</sup>We thank Helmut Asche, James Bennett, Chris Pain, and Sabina Schnell for their contributions to this paper.

## On the choice and/or mix of methods

One great strength of the User's Guide is that it does not prescribe a single "best method" or technique, but presents a rich variety of all that the economic and social sciences currently have on offer in the field of development. From the start, the guide advocates a multi-disciplinary approach and sets out the importance of adopting both quantitative and qualitative approaches to data analysis and mixed methods in undertaking a PSIA.

The promotion of the multi-disciplinary approach, however, is somewhat weakened throughout the Guide due to the fact that the two types of analysis (quantitative and qualitative) do not always come across as being equal. A "second best" attitude towards qualitative approaches is evident, for just one example, on page 31: "...there is much to be gained from mixing analytical methods, if possible. Qualitative analyses can inform and enrich the analysis derived from quantitative modeling methods described in this section when undertaken in conjunction with such methods." Such statements imply that qualitative analysis is optional compared to quantitative approaches being "mandatory", and relegates the former to a supporting role for the latter.

Further, the discussion of how the nature of the feedback effects (whether they are "low" or "high") affect method choice gives the impression that the use of qualitative tools is predominantly relevant for low feedback reforms or as a substitute for complex economic tools when data is not available (pages 23 and 24, and the description of methods on pages 26 through 35). Here, we suggest presenting more complete profiles of the recommended qualitative instruments – for example, by highlighting which qualitative tools are best suited to address non-income poverty topics, such as voice and empowerment. This would underline the complementarity of methods, rather than reducing qualitative methods to gap fillers.<sup>2</sup>

As regards the quantitative, modeling instruments presented in the Guide, the GTZ has experience with the following types:

- input-output-based models (Burkina Faso, Rwanda, Guinea, Benin, Mauritania)
- general equilibrium model (Swaziland)
- social accounting matrix, built upon an IOT (Guinea, in progress).

On the basis of our experience, we recommend building on existing efforts in the countries rather than introducing completely new, possibly multiple methodologies. Capacity constraints, as noted by the Executive Directors in their discussion of the "PRSP – Progress in Implementation" on September 3, are critical in all PSIA areas, but most especially here. Emphasis should be placed instead on building capacity through *updating* models (meaning the building of capacity across several institutions – i.e., the central bank, ministry of finance, and statistical office) and on producing the relevant data in a timely fashion through the statistical offices.

We think that sectoral approaches will be more relevant in the future for describing pro-poor growth paths. Special efforts must be made to integrate sectoral data and policies into the macro modeling exercise. In our experience, sectoral data exist in a number of SSA countries, but need to be checked and processed in order to integrate them into the macro perspective.

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<sup>2</sup> Relatedly, we would like to point out that all of the reforms listed in Box 4 (page 25) as being "higher feedback reforms", are likely also to have short-term effects (associated with "lower feedback reforms") that impact especially on the poor. Therefore, the Guide should suggest that methods be used that are capable of capturing these potential short-term effects, even in the cases of higher feedback reforms.

## Integration of PSIA in existing M&E systems

Although country ownership is a common theme throughout the paper, and while there is brief discussion in the latter part of the Guide about the relationship between PSIA and national poverty monitoring systems (pages 39-40), there is little concrete explanation of the way the PSIA approach is to be embedded within partner institutions and systems. Instead, one receives much more the impression of PSIA as just an "add-on" task. This perception of PSIA as "merely" additional work for government institutions (or worse: as an additional conditionality being stipulated by donors) undermines the potential of the approach to help bring about deep-seated change in the way governments go about their policy-making business. For PSIA could solidly support the move towards more evidence-based policy formulation.

Stated in the reverse, the superficial treatment of PSIA as "supplementary work" that is not part and parcel of policy-making and implementing processes in the partner countries could very well lead to insufficient ownership and to missing out on opportunities for fostering institutional change. Thus the approach and its tools needs to be placed clearly within a monitoring and evaluation system; however, the User's Guide does not pay sufficient attention to achieving institutionalization. Based on the process-nature of PSIA, this could be approached practically by making clearer delimitation of its stages (ex-ante analysis, monitoring & periodical evaluation, and ex-post analysis & evaluation), as well as by establishing coherent systems with an understanding of the interrelations and synergies between the various elements of the PSIA and between those of the PSIA and of other monitoring activities. Suggestions on how to forge a closer link between general poverty analysis & monitoring and *policy* impact analysis & monitoring are also needed here.

The User's Guide is surprisingly silent on the PSIA-PRSP relationship – which cannot be explained adequately by the fact that PSIA also could be deployed in non-PRSP countries. Clearly, major structural reforms are carried out in all sorts of countries, not only in HIPC and/or PRSP countries. PSIA will be a valid approach in middle-income and newly-industrialized countries, as well, so it certainly must not be associated exclusively with the PRSP process. However, where the development strategy of a client country is contained in a PRSP and a viable PRSP consultation process accompanies the implementation of the strategy, PSIA should – in our understanding – become part and parcel of the PRSP exercise.

Moreover, the integration of macro-economic reform in general with the PRSP is considered critical in almost every country concerned; and the fact that this integration has been at best only partially achieved, is subject to widespread and justified critique. By presenting ex-ante and ex-post poverty analysis of major economic reform, PSIA has the great potential to contribute to the aforementioned integration and should be conceived and presented as such.

If the PSIA, then, is to be a key element of the PRS (when one exists – as is mostly the case in the African context), then it needs to be set more clearly within the framework of the PRS Monitoring & Evaluation System. Under the PRSP approach, there are quite a number of impact monitoring systems or subsystems:

- statistical monitoring of poverty trends
- qualitative and/or participatory poverty assessments
- budget monitoring for poverty (and gender) impact
- environmental and other sectoral or cross-sectoral monitoring
- overall policy impact monitoring of the PRSP, cutting across various topics.

But is the PSIA is meant to be *complete in itself*, thus being implicitly a sort of PRSP monitoring subsystem, or should it be considered one instrument belonging to a broader

M&E system? The answer to this question would clarify important monitoring-system design issues.<sup>3</sup>

One can rephrase the problem in slightly different terms. The importance is being increasingly recognized of establishing a system of **PRSP accountability**, especially social accountability, as a platform for continued social dialogue after the completion of the first PRS papers. Such a "PRSP social accountability system" should include elements of continued participation and consultation throughout PRSP implementation. The question thus is whether the PSIA is to become part of this kind of PRS accountability – which in turn raises a series of other questions:

- Who chooses the policies to be investigated and methods to be used?
- Who carries out the PSIA?
- Who receives PSIA findings? Or: Who uses the results and for what purposes?

In addition to other considerations, the next section takes up these questions.

### **The political dimensions**

The User's Guide tends to present the information that is generated by PSIA tools as being objective, non-ambiguous, definitive, and ultimately accessible – the whole issue of the political nature and the politicization of information and of the PSIA is missing. Granted, the text does make many qualifying statements about the methodologies being used and their output (e.g., Box 9 on page 35 discusses the fact that the different methods recommended for PSIA reach different conclusions; and there is a bold statement on page 47 that, "[n]ecessarily, ex-ante PSIA will not get everything right" (emphasis in the original)). Nevertheless, we feel one is left with the overwhelming impression that it is possible, under ideal circumstances, to get all the (accurate!) information needed for making policy decisions, and, once you have it, that the choices will be obvious. Of course, it doesn't work that way: Information has a tendency to be imperfect, incomplete, and to become outdated; and even if the information base were satisfactory and the policy choices were "clear", that does not ensure that the majority of actors would generally accept the recommended policy action.

The User's Guide is strong in its direction on selecting tools and planning the exercise; unfortunately, it is rather weak on how to get the results used. But in our experience (QIM, KePIM), bringing the results to the decision-makers and getting them acted upon are the actual challenges of (and, in fact, the reasons for) the investigation. We find the political dimensions of policy formulation to be underestimated and rather neglected by the Guide, which basically limits its discussion of political processes to a few paragraphs on pages 46-47 ("Fostering policy debate" and "Feeding back for policy adjustment"). Although it is important that public policy is based on information about their impact on people (and especially the poor), the lion's share of the work still will be of a political, not technical, nature. We recommend that the Guide address the political dimensions of policy formulation more completely throughout the paper, and that it provide more operable advice on how to be prepared for such processes.<sup>4</sup>

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<sup>3</sup> At the same time, this will clarify the relationship of the User's Guide to PREM's PRSP Toolbox: It is not very practical to have two toolboxes coexist almost independently, both providing guidance on monitoring and evaluation!

<sup>4</sup> Approaches such as QIM in Malawi and KePIM in Kenya have always been framed as primarily political – as opposed to technical – exercises. They have focused specifically on the impacts of policies, and were institutionally integrated throughout the policy formulation steps. The experiences of these countries may be of value for this discussion. GTZ offers to bring them to the table.

Perhaps a practical way to bring the political dimension into the User's Guide is to incorporate the questions raised at the end of the last section. We will take them up here, one-by-one, and offer our current thoughts on each.

#### Who chooses the policies to be investigated and methods to be used?

The Guide should be more explicit on this decision-making process. The Malawi case shows that the simple question of which aspects of a certain reform are to be included or left out of the PSIA can be a highly political one.

A possible answer to this question for the relevant countries is that the PRSP process, if mounted properly, can be used as a platform for selecting reform issues to be submitted to PSIA exercises. This would balance country and donor needs, thus avoiding the PSIA being seen as just another donor property.

The Qualitative Impact Monitoring as carried out by the Governments of Malawi and Kenya with GTZ assistance (QIM, KePIM) provides such a mechanism for jointly choosing issues for PSIA or other scrutiny. It offers by example another alternative as an answer to the question of who chooses the reform(s) to be the subject of the PSIA. The QIM/KePIM approach involves governmental and civil society actors in selecting policies to be investigated, based on their information needs. It also emphasizes feedback loops for bringing the monitoring results into policy-formulation processes and to the decision-makers on implementation issues. The Qualitative Impact Monitoring approach could be a model for the institutionalization of PSIA selection and decision-making processes.

#### Who carries out the PSIA?

This question relates in part to the political dimension issues brought up in the previous section. Is the PSIA to be carried out just by experts, or are stakeholders to be involved? Is the expertise to be provided and/or selected by donors, by governments, by both, or by a broader spectrum of actors? The answers to these questions have ramifications for country ownership and for the issue of participation.

References in the Guide, for instance, to “[e]mploying local counterparts in the implementation and setting up of [the PSIA] M&E system...” (page 43, paragraph 86, final bullet) seem to indicate that the authors already have a distribution of roles in mind for carrying out a PSIA. A less donor-based approach would underline the fact that local planners and stakeholders should be *instrumental* in assessing the appropriateness of external (foreign) participation in the PSIA. The relevance of PSIA should be judged foremost from the perspective of the partner countries. Carrying out the PSIA so that it meets specific country needs will be central for the approach's success. We recommend that the Guide adopt a less donor-based perspective and stress the relevance of country processes.

#### Who receives PSIA findings? Who uses the results used and for what purposes?

The User's Guide – and specifically the brief section on “Fostering policy debate” (pages 46-47) – remains fairly general on these questions. Specifically, the decision-making power of national governments over the PSIA results are unclear and should be spelled out more thoroughly.

If one of the objectives of the PSIA is to provide policy options for our development partners, to enhance the sovereignty of national governments, then a radical change in the policy reform or even its complete abandonment must be a genuine choice for the national decision-makers. This is vital for the credibility of the approach. It would be useful for the Guide to take up this issue head on: How much room do national stakeholders have to negotiate, and what is the Bank's role in this decision-making process?

In any case, we suggest caution in merely using the PSIA results to design mitigation measures in order to increase acceptance of the policy or to ensure a better poverty impact.

The experience of the Social Dimension of Adjustment programs show that this in itself does not foster political commitment and social acceptance for reforms.

It needs to be emphasized here that the usefulness of the PSIA to donors is considerable and justified. This is true not only in the context of joint commitment to the Millennium Development Goals, but also in the context of the increased orientation towards budget-aid. PSIA becomes an important instrument to assess and justify donor's support to national budgets. Still, the positive and negative experiences from a donor-based perspective have to be borne in mind during future assessments of the PSIA. There may also be a lesson from the PPAs carried out in the early 1990s regarding the issue of ownership (or its lack) that arose in many of the original exercises, that were viewed as belonging to the Bank.<sup>5</sup>

### **Additional issues**

Before closing, we would like to present a few issues that should be included – or receive greater attention – in the User's Guide.

First, there is a tendency in the Guide to focus on income-related impacts, with some attention given to social sectors (health, education), but very little orientation provided on certain other areas that should have an important place in a Poverty and Social Impact Analysis. These include such crucial aspects as empowerment, vulnerability, the environment, etc. We suggest, therefore, that section IV "Conceptual Framework for Understanding Poverty and Social Impacts" (page 5-10) be expanded to encompass the following additional aspects: Impact on empowerment of the poor; impact on the wealthy and other non-poor; impact on risk and vulnerability (e.g., through civil unrest); impact on transaction costs (e.g., through reduced corruption and higher transparency). Another idea is to add to the list of "impact channels" (pages 8-9) at least one more category for capturing changes in attitudes, behavior, and social changes.

Another, related issue is the impact of policy reform on income and welfare disparities and possible negative feedback on poverty alleviation processes. Despite the fact that the PSIA is presented at the beginning of the Guide as "...analysis of the distributional impact of policy reforms on the well-being or welfare of different stakeholder groups, with particular focus on the poor and vulnerable" (page 2), little attention is given to this throughout the text. More care should be taken to distinguish between analysis of policy impacts on the poor (as a group), and policy impacts on economy-wide disparities, reflected for example in the Gini coefficient, which goes unmentioned in the paper.

The next issue is the building of monitoring and analysis capacity amongst national governments. The existence of capacity constraints is frequently acknowledged in the Guide, and in fact is a common theme throughout the document (cf. pages 2, 4, 24). While the shortcoming is mentioned, the only solution put forward to our reading, is that "PSIA approaches that foster 'learning by doing' would be a key tenet to development partners' assistance to countries" (page 5). This is too little of a conceptual approach to address the seriousness of the issue.

Finally, we find that, when discussing indicators (pages 39-44) it is important to maintain clarity. It is well documented that in the past couple of years and with the development of PRS that the language conventions in this field have become rather cloudy,<sup>6</sup> particularly with regard to the use of the words "outcome" and "impact". The User's Guide mentions several

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<sup>5</sup>This was a particular problem, for instance, in the approach adopted in Mozambique.

<sup>6</sup>Booth and Lucas (2002: 2) *Desk Study of Good Practice in the Development of PRSP Indicators and Monitoring Systems* ODI, London.

types of indicators – input, output, outcome, intermediate, process, proxy, impact, and performance – without clarifying the relationship between them.<sup>7</sup> To prevent confusion, it is important that terminology and definitions are presented and consistently used.

## Conclusion

We have used quite a lot of space in this paper for discussing what we feel to be the shortcomings of the PSIA approach as it is presented in the draft User's Guide. To correct the false impression this might have made, we would like to emphasize once again that the GTZ finds the PSIA to be a major step forward for policy design and implementation. Furthermore, we applaud both the timely drafting of the User's Guide as well as its orientation towards practical application. The Guide certainly exhibits many more strengths than weaknesses.

The fact remains that there are some issues that should be more completely developed in the User's Guide. We feel the most important of these are:

- promoting a better balance of qualitative and quantitative tools
- integrating the PSIA approach within existing M&E Systems
- addressing the primarily political nature of policy impact analysis and monitoring exercises.

These also are areas where the GTZ is prepared and committed to further developing the PSIA approach.

<sup>7</sup> Examples:

*Page 40* discusses input, output and outcome indicators.

*Page 41* discusses intermediate and process indicators to monitor the implementation and outcomes of reform.

*Page 41* also discusses proxy or intermediate indicators for outcome or impact indicators that take longer periods to change.

*Page 43* discusses output, outcome, process and impact indicators that are meaningful to stakeholders, and subsequently performance indicators.

*Page 43* when discussing frequency of information collection, mentions the indicator types of proxy/intermediate, prices, outcome/impact, inputs/outputs, all of which lead to outcomes/impact.

*Page 45* discusses input, output, intermediate, outcome and impact indicators.