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Equity and Political Economic Challenges in Development Intervention[1]

1. Introduction

There is a growing recognition in the development community, including international organizations, that economic growth and poverty reduction can only be sustained in the longer-term if polices promote shared growth and if reforms are owned and led by the countries themselves rather than prescribed from the outside. 'Equitable' in this context refers to intra- as well inter-generational equity. It builds on the recognition that, in order to enhance equity, present and future economic, social, environmental and institutional reform impacts need to be continually and simultaneously assessed and addressed. This 'sea change', among other factors, emerged from the experience of the structural adjustment era, where a neo-liberal market focus dictated a rather uniform development approach under the 'Washington Consensus' (Williamson 1990, 1993). The Consensus had several assumptions. Firstly, it assumed that the private sector was considered better endowed to enhance economic growth than the public sector, which was characterized by weak governance, limited capacity, or unviable regulatory frameworks. The second assumption was that such market-induced economic growth was to benefit everyone equally. Thirdly, it suggested that successful development models can simply be transferred from one country to another. However, these 'trickle-down' and 'one-size-fits-all' assumptions proved unrealistic. Growth is often seen to benefit certain socio-economic groups and geographical areas more than others, as powerful interests frequently capture benefits at the expense of the poor and vulnerable (World Bank 2008b). It has been argued that, while some countries have significantly reduced poverty and achieved high economic performance since the 1980s, most notably India and China, neither of them seemed to have followed the Consensus' guidelines (Rodrik 2006). Malaysia is another example, where consistent redistributive efforts to balance the discrepancies between ethnic minorities and Indian and Chinese Malays were key to sustained economic growth (Keefer/Knack 2002).

As a response to address the need for more equitable and sustainable development, practitioners in partner countries and development organizations have developed more systematic approaches and instruments that enhance the consideration of equity and power relations in the design of development policies and interventions. In this paper we discuss two specific approaches developed by the World Bank in collaboration with development partners (World Bank 2003, 2008b). Both build on the notion that the promotion of shared economic growth and poverty reduction require a firmer understanding of equity as well as power relations. Firstly, Poverty and Social Impact Analysis (PSIA) analyzes the distributional impacts in order to identify winners and losers of reforms and development interventions. Secondly, the Conceptual Framework for the Analysis of the Political Economy of Reform (in the following The Political Economy of Reform Framework) was developed to better understand and manage the support and opposition as well as the capture of the benefits of operations and reforms by powerful groups.[2] These approaches demonstrate the 'sea change' in development organizations, including the Word Bank, in that they help development practitioners to enhance positive and mitigate negative impacts, as well as manage the political economy of development interventions. Through application across multiple sectors and countries over recent years, these approaches have generated a substantive body of knowledge upon which this paper will draw.

The objective of this paper is to discuss how these two approaches can contribute to enhancing the design of policy reforms and operations that are more country-tailored, sustainable and better support equitable growth and poverty reduction. At first, the analytical underpinnings of PSIA and the Political Economy of Reform Framework will be outlined. This will be followed by a discussion of case examples selected by their stated objective to address inequality, especially in the context of increasing scarcity of natural resources and environmental degradation induced by global climate change. Based on this, the paper will discuss the actual potential of these instruments to help enhance the effectiveness of development intervention, and conclude by illustrating future challenges.

2. PSIA and the Conceptual Framework for the Analysis of the Political Economy of Reform

Poverty and Social Impact Analysis (PSIA) is defined as the "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" (World Bank 2003: 1). PSIA was developed by the World Bank, in close collaboration with bilateral development partners such as the British Department for International Development (DFID) and the German Development Corporation (GTZ).[3] Its goal is to more systematically analyze the poverty and social implications of reforms. At its core lies the notion that the social costs and benefits of development policies need to be assessed and addressed at the disaggregated level, as they affect different socio-economic groups and geographical areas in different ways (Coudouel et al. 2006). For instance, while some reforms may deliver positive balance-of-payment figures at the aggregated country level, poverty and social outcomes may be negative for vulnerable groups who have fewer alternatives for coping with reform-induced changes. By identifying and addressing such inequities, PSIA responds to the growing need for a more open and transparent evaluation process of reform options (Gomes/Lawson 2005). However, the approach is not entirely new; instead, it is an attempt to systematically use and synthesize available methodologies of economic, social, institutional and political analysis (Coudouel et al. 2006; Bourguignon/Pereira da Silva 2003; Holland 2007). PSIA is based on a multi-dimensional (income and non-income) definition of poverty in order to measure the likely or actual equity impacts of either sector-specific or macro-economic policy reforms across different socio-economic groups and geographical areas. This covers monetary and non-monetary impact dimensions, such as prices and access to goods and services, subsidies, employment, assets, or changes in power relation, e.g. through decentralization. PSIA has been applied to a wide range of reform sectors, predominantly utility sectors (energy and water), economic policy, mining, agriculture, public sector governance as well as social protection, health, and the environment (World Bank 2008a). Some of these sectors are particularly subject to increasing inequality due to global climate change induced degradation of the environment and declining stocks of natural resources. In 2004, the World Bank included the considerations of both (1) poverty and social impacts of the policies that the Bank supports, and (2) stakeholder consultations and participation during the design and implementation of policy loans[4] in its operational policy on "Development Policy Lending" (World Bank 2004). This supports the twin goals of PSIA: to provide empirical evidence for policy-making and to promote dialogue between policy-makers, stakeholders and the public.

Despite their sound economic and technical design, many operations or reforms across sectors have not been completely implemented or have not exploited their full potential in promoting shared growth and reducing poverty. One reason is thought to lie in lack of political will, or the under-explored dynamics of interest groups. For instance, conditional cash transfer programs to provide social protection like Mexico's *Progressa* or Brazil's *Bolsa Familia*, are innovative mechanisms to address persistent pockets of poverty and inequality at the disaggregated level (de Janvry/Sadoulet 2004). However, such interventions have not always focused on power structures or incentives for decision-making, thereby risking that powerful interests stand to lose from development interventions, as they may no longer profit from current rents or future benefits and are consequently likely to aim to delay, stall, or oppose the intervention. If less powerful groups remain excluded from sharing the benefit of development interventions, growth will not be equitable or contribute to poverty reduction. To promote more equitable and sustainable development, practitioners have developed frameworks – one example will be presented below – to help assess and address political economy issues.

The consideration of political economy issues, especially in the field of development economics, presents additional challenges for existing theoretical frameworks. Frey and Eichenberger (1994) stress, that the analytical focus has to be set differently than in fully working democratic societies, since many factors substantially vary: for instance, group influence is considerably larger; the politico-economic constraints to reform caused by elections, play a smaller role in authoritarian regimes than those that prevail in many developing countries; governments are limited by the technical instruments or financial resources that are available to pursue their goals; and governments' revenue sources are different, including taxation or money creation or donor support. Other authors have contributed to this discussion empirically and raised issues, such as timing of reforms in different regimes, the nature of reform barriers (e.g. the larger the distributional impact, the more reluctant politicians are to push them through) and also the factors that kick off reforms more easily (e.g. a country crisis; see Rodrik 1994; Alesina/Drazen 1991; Sturzenegger/Tommasi 1998).

When analyzing political economy in reform contexts, Frey and Eichenberger (1994) also consider it essential that development organizations perceive themselves as reform stakeholders who are subject to political economy constraints and opportunities and who can not be treated in isolation or as 'outsiders' to the reform context.

The challenge for practitioners, however, lies in handling these dynamics in their day-to-day operational work. How does one address the difficulty of continuous facilitation of policy dialogue and change at all stages of a country's political cycle? Why do policy reform processes sometimes stall, stop, reverse, or go off track despite their content, design and implementation appearing technically sound? What can be done to mitigate this? Why do reforms, which were designed to benefit poor and vulnerable groups, fall short of achieving this goal? The Political Economy of Reform Framework (see Figure 1) aims to assist in addressing these questions by expanding the traditional equity focus of PSIA with considerations of power relations (World Bank 2008b). It consists of a diagnostic framework that helps to analyze the reform context of power, institutions, and actors (the 'reform arena'), and reform processes. Furthermore an action framework that should help to translate such diagnostics into operational actions, components, or associated forms of dialogue to better manage the support, opposition and capture of benefits of reforms and operations by powerful interests.

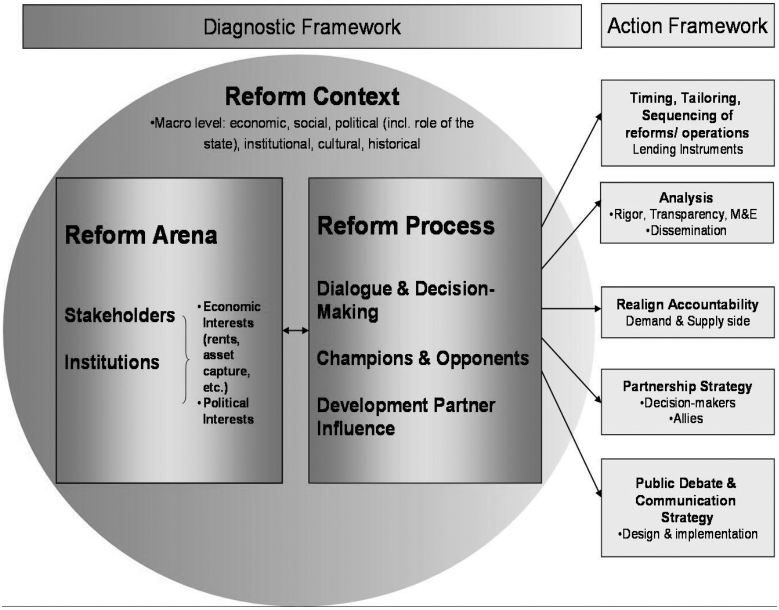

Figure 1: *A Conceptual Framework of the Political Economy of Reform.*

Source: World Bank (2008b)

3. Methodological Foundations of PSIA and the Political Economy Framework

Given its multidimensional impact assessment approach, PSIA includes macro- as well as microeconomic analysis and combines the two where applicable (see Bourguignon/Pereira da Silva 2003 on why the micro approach and the micro-macro linkages are important dimensions). To account for contextual complexity, it furthermore draws on social and political scientific analysis.

The use of economic analysis to assess poverty and social impacts includes tools such as Direct Impact Analyses, which may consist of Incidence Analysis or Poverty Maps. These are tools that are ideal for evaluating short-term effects (price elasticities are assumed to be zero) of reforms like public spending removals, price changes, and so on. On the other hand, Behavioral Analyses take a more dynamic approach, since they analyze the substitution behavior of agents as a response to a reform. However, this is little more than a microeconomic approach. A combination with Incidence Analysis allows for the explanation of distributional changes. As opposed to Behavioral Incidence Analysis, economic equilibrium analyses look either at the economy as a whole from a supply and demand perspective, or they assess one or more markets. Equilibria analyses therefore help to analyze sectoral reforms based on household survey data (see World Bank 2003 or Bourguignon/Pereira da Silva 2003 for details on methods).

Social analysis tools on the other hand may include Stakeholder Analysis that systematically analyzes stakeholder characteristics, their interest and degree of influence; it plots them on a Stakeholder Analysis Matrix to illustrate political actors and economic or social groups that drive or impede reforms or operations. Another tool widely used is Organizational Mapping. This analyzes formal and informal institutions by tracing the flows of resources, information, and decision-making through static and process mapping. A Social Risk Assessment identifies the broad spectrum of likely risks that can emerge both *to* and *from* the specific operation or policy reform, such as institutional, country, exogenous, or vulnerability risks, as well as risks in the form of opposition or capture of benefits by powerful stakeholders. It maps the risks onto a grid to show their importance and the likelihood with which they may occur. This facilitates the design of adequate risk management strategies (Holland 2007).

Social analyses, with their qualitative components, have gained importance in complementing economic analysis over the past years. Gomes and Lawson (2005) argue that the strength of qualitative approaches lies in providing a broader social, economic and cultural context for reform analysis. Bourguignon and Pereira da Silva (2003) suggest complementing Incidence Analysis with qualitative evaluation. This helps to assess dimensions of social public spending through additional non-income measures, such as identity, perceptions, and beliefs. A qualitative analysis is key for a contextual understanding of the needs and development challenges of poor minorities, especially when quantitative survey data is difficult to generate or unable to uncover the causes of poverty (Rao/Woolcock 2003).

This is reflected in the increasing use of mixed-methods approaches (combining qualitative and quantitative, as well as social and economic methods). For instance, qualitative techniques are used in Participatory Econometrics to develop ex-ante hypotheses (derived from practical problems instead of theoretical models), or ex-post hypotheses to test counter-intuitive econometric results. A mixed-method study by Rao et al. (2003) illustrates this in a practical example. Sex workers in Calcutta have to bear a considerable income loss if they use safe sex methods, such as condoms, for health protection. The actual income loss is estimated to be more than half, compared to sex services offered without condoms. This quantitative study could not find a statistically significant explanation for this, based on the education level of the workers; nevertheless, its results suggested that the use of condoms increases with higher education levels. However, a subsequent qualitative study revealed the link between condom use and actual income loss. Prior to the quantitative survey, randomly selected sex workers received training on the correct use of condoms and the consequences of non-condom use. The authors considered the estimates of loss of income (by introducing the training units as restrictions to the model), and identified the actual factors for condom use, regardless of training. As a result, education proved to be one factor that enhances the likelihood of condom use. We will now turn to how PSIA and the Political Economy of Reform Framework have been applied in practice and then discuss whether and how they actually contribute to promoting more equitable and sustainable development interventions.

4. Tackling Equity and Political Economy Dynamics in Practice

The aim of this section is to see whether and how PSIA can contribute to more equitable policy reforms and operations. But it should also illustrate that policy and operational design and implementation can be challenged by underlying political economic constraints[5]. In Indonesia, a CGE-analysis of a rice tariff increase clearly revealed negative impacts on poor people, both in rural and urban areas (Leith et al. 2003). This, however, did not change the way the government designed its policies. As Holland (2007: 130) puts it, "[…] in the highly political environment in Indonesia in 2002 […] evidence was often not the primary factor in government decision making." Issues involving the political economy of reform arise in many cases, but most have remained unreported.

The Tajikistan land tenure reform evaluated the implications of incomplete land tenure privatization through a mixed-method PSIA. Econometric estimation was used to calculate the total annual cost of the failure to enforce property rights. The analysis revealed adverse impacts on the poor and presented clear-cut policy propositions for government. However, despite information on the benefits of full land tenure privatization, policy makers were reluctant to fully implement the reform. A subsequent stakeholder analysis was used to identify political reform implementation constraints. The qualitative analysis revealed vested interests as the main constraints to full land tenure privatization. Managers and stakeholders in the marketing chain, who feared a loss of their rents, pressured decision-makers not to implement reforms (Sattar/Mohib 2006). Although the stakeholder analysis did not resolve the rent-seeking problem, it exposed the origins of resistance to full reform implementation, showed the negative economic and social impacts of incomplete reform implementation, and highlighted trade-offs that policy-makers now have to decide upon.

The Romanian mining sector PSIA assessed the equity and power relations of sector restructuring and closure of unprofitable mines. The mining sector has been plagued by political economy issues since the beginning of restructuring in 1997. In the mid-1990s, Romania had many unprofitable mines. By 2004, only 120 were operational, the workforce had been downsized considerably, but government subsidies to the mining sector did not decline as the reform had assumed. Periodic strikes by the trade unions led to frequent concessions and a perpetuation of subsidies. As part of the PSIA, the impact of powerful interests was shown to be a major barrier to implementing the reform and reducing subsidies in the sector (Holland 2007). To analyze equity issues arising from mine closures, a survey-based econometric analysis was employed (Dani et al. 2006) to determine the distributional impacts on mining and non-mining communities. Cost-effectiveness analysis helped to evaluate labor-market interventions that the government planned to use to compensate for job losses. As disproportionately negative impacts on women were anticipated, a qualitative study (using focus groups) was conducted, which illustrated that women and other non-mining groups are as negatively affected as mining workers. The study also showed that the government focus on compensating retrenched miners through short-term social protection and labor market measures would not lead to the needed long-term socioeconomic regeneration, despite its efforts, for example, for employment creation, vocational training programs, and structural changes going beyond the mining sector.

In cases where the influence of powerful interests is identified as the main constraint to reform implementation, social analysis and qualitative methods provide the necessary contextual understanding and viable recommendations on how to better manage this issue. The Yemen Water Sector PSIA assessed the equity and power relations of the implementation of the National Water Sector Strategy and Investment Program (NWSSIP) which was designed to address the water crisis. Groundwater resources continue to be used up faster than replenished, access to safe water and sanitation is low, and the poor remain worst affected by the increasing water scarcity. The study analyzed secondary quantitative, and primary qualitative data of stakeholders, institutions, impacts, risks, and opportunities in groundwater management, irrigation, and rural water supply and sanitation. It used participatory approaches for stakeholder consultations and dialogue to address reform opposition, and enhance ownership. Although NWSSIP is the accepted pro-poor reform, incomplete decentralization and vested interests hamper its implementation and equity. Incentives remain skewed towards groundwater overdraft where drillers, well owners and large farmers capture benefits of water (public good) through enhanced access to land and tubewell drilling at the expense of poor farmers and the landless. The study used visual maps to illustrate the power relations and stakeholder reform support and opposition. It also traced the financial flows, for instance from Government and donors to the groundwater implementation agency at headquarter and decentralized branch level. This showed that incomplete fiscal decentralization is a key factor for slower than expected reform progress (Ward et al. 2007). Study findings have been used during the policy dialogue to update the NWSSIP and to design a multi-donor water sector support operation.

The above cases illustrate that analyzing reform impacts isessential in ensuring that development interventions meet their poverty reduction targets and spur equitable economic growth. However, the cases also show that such analysis can reveal power relations as critical components, which – if unaddressed - might hamper the design and/or implementation of equity-focused reforms and operations. These components consist of identifying winners, losers, opponents and supporters, as well as risks and opportunities. Adding this 'Political Economy of Reform' perspective to future development practice might be one of the critical aspects for more equitable, country-owned and sustainable development interventions. However, many challenges remain.

5. Challenges to the integration of PSIA and Political Economy in Development Practice

PSIA and the Political Economy Framework aim to contribute to the recognition that change is needed in the way, that many development practitioners think about policy reforms. Firstly, what may be economically efficient might not translate into the practical improvement of people's livelihoods. Secondly, there is a growing recognition that reform impacts need to be analyzed at disaggregated levels. This helps to enhance positive, and mitigate negative impacts, especially for poor groups and remote geographical areas. It also helps to design more equitable and sustainable reforms and operations, and thus contribute to enhanced development effectiveness. This is reflected in the incremental development of instruments that complement the often stand-alone and dominating economic analysis traditionally used in development interventions. However, the potential for the practical application of such instruments is still unexploited and currently faces the following challenges:

– How to strengthen the capacity for political economy analysis among development practitioners in order to link systematic evidence with effective reform and dialogue and negotiations. Awareness and technical qualifications are needed to commission and carry out PSIA and Political Economy of Reform analyses to reveal the critical contextual information for more effective policies and operations.
– How to effectively translate Political Economy of Reform analysis into operational design and implementation. Development practitioners often have a deep understanding of the political economic context. How-

ever, their expertise is rarely captured or shared and thus often remains 'hidden', due to the sensitivity of such knowledge in an ostensibly technical relationship with partner countries.

– How to increase incentives and resource envelops to conduct PSIA or Political Economy of Reform work. Current time and budget constraints often prevent the full exploitation of the potential benefits of such analyses – for instance uncovering risks in the design of more equitable, country-owned and sustainable interventions.
– How to address the current perception of political economy, often seen only as a risk, but not as an opportunity for development interventions. Development practitioners currently stop short at 'internalizing externalities', i.e. using the identified risk as a means to design adequate risk management strategies and proactively integrate them into operational design.
– How to overcome the tension between result-focused and timely development work with the need for in-country dialogue to support incremental reform. Incentives and organizational structures in many international development organizations do not always provide the necessary flexibility that often unpredictable reform processes (e.g. in terms of content and time) require.

6. Conclusions

This paper illustrated two innovative approaches (PSIA and the Political Economy of Reform Framework) that can be used to more systematically assess and manage equity impacts and power structure issues during the design of more equitable, country-owned, and sustainable development interventions that support poverty reduction and shared economic growth. It has shown their critical contributions to a number of development reforms and operations, thereby illustrating their potential in practice. This is further supported by the increased attention to poverty and other forms of social impact, for example in the World Bank's operational policy on development policy lending. From an analytical perspective, the potential of combining qualitative and quantitative as well as economic and social analyses instruments is key; firstly to better understand equity impacts on both, the macro- and the micro-level, and secondly to consider the institutional context and political dynamics as influential factors for development effectiveness. However, the remaining challenges for a more systematic engagement of development practitioners in such analysis were shown. Much more needs to be done to further promote such contextual and multi-disciplinary approaches to development intervention, which frequently remain focused on economic analysis. Nevertheless, a sea change in awareness can be observed, one that might be a critical component towards developing more equitable, country-owned, and sustainable development interventions that support both poverty reduction and shared economic growth.

1) The findings, interpretations, and conclusions expressed in this paper are not intended to represent the views of the Executive Directors of The World Bank or the governments they represent. The authors are grateful for comments by Gillette Hall (World Bank), Andreas Exenberger (University of Innsbruck) and an anonymous referee.
2) Other disciplines and institutions offer a variety of sometimes complementary methods to analyze policy impacts and associated power dynamics. Due to the scope of this paper, however, we will focus on only two, and reference others where applicable.
3) Within the World Bank, the PSIA approach was jointly developed by the Social Development and the Poverty Reduction and Economic Management Departments. For a detailed review of the methodological approach and country cases of PSIA, refer to http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPSIA/0,,menuPK:490139~pagePK:149018~piPK:149093~theSitePK:490130,00.html.
4) The Operational Policy reference can be found in OP8.60, paragraphs 10 and 6, also referred to in paragraph 9 on 'analytical underpinnings' (World Bank, 2004).
5) Selected case studies will be presented below; other cases can e found on the PSIA website http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTPOVERTY/EXTPSIA/0,,contentMDK:20930852~pagePK:210058~piPK:210062~theSitePK:490130,00.html.

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Abstracts

Despite the widely recognized need to foster pro-poor growth, the search for adequate policy mechanisms is ongoing. Economic gains at the aggregated country level often dominate assessments of development effectiveness, while distributional impact analyses at the disaggregated level identify persistent pockets of poverty and increasing inequality within countries. The reasons for this continuous challenge to devising more effective development strategies can be manifold: lack of contextual understanding, or prescription of 'one-size fits-all' reform policies in many international development organizations, as well as the underestimation of political economy factors where powerful interests acquire development benefits at the expense of already vulnerable groups. In response to these issues, development practitioners introduced instruments to tackle these pitfalls in their operational work - two of which are *Poverty and Social Impact Analysis (PSIA)* and a *Conceptual Framework for the Analysis of the Political Economy of Reform*. This paper aims to illustrate these instruments methodologically as well as applied in country cases. This should provide the basis for a discussion of the potential that these instruments can offer to support development operations to foster pro-poor growth. We will conclude our paper by outlining the remaining challenges.

Trotz der Erkenntnis, dass Wachstum, um nachhaltig zu sein, den Armen in der Bevölkerung nützen sollte, gibt es wenige Instrumente, die eine solche Zielimplementierung in der Praxis unterstützen können. Ökonomischer Nutzen wird bei der Analyse der Effektivität von Entwicklungsarbeit oft aggregiert betrachtet – gleichzeitig identifizieren disaggregierte Verteilungswirkungsanalysen jedoch weiterhin bestehende Armut und zunehmende Ungleichheit in vielen Ländern. Es gibt einige Gründe für diese Diskrepanz: das Fehlen von Verständnis für den Länderkontext; die Verschreibung seitens vieler internationalen Entwicklungsorganisationen von einheitlichen Rezepten für verschiedene Länder; und auch die Unterschätzung von politisch ökonomischen Faktoren, wo starke Interessengruppen den Nutzen von Entwicklungsinitiativen für sich maximieren, oft auf Kosten von verletzlicheren Bevölkerungsgruppen. Antwort auf diese Probleme wollen Instrumente wie *Poverty and Social Impact Analysis (PSIA)*

und ein *Conceptual Framework for the Analysis of Political Economy of Reform* in der Praxis bieten. In diesem Beitrag wollen wir diese, von der Weltbank genutzten, Instrumente aufzeigen, sowohl methodologisch als auch angewandt auf Länderbeispiele. Basierend auf dieser Diskussion, analysieren wir, inwiefern solche Instrumente dazu beitragen können, den Fokus der Entwicklungspraxis mehr auf armutsreduzierendes Wachstum zu lenken. Wir schließen diese Diskussion mit einem Ausblick auf offene Fragen und verbleibende Herausforderungen, die künftig adressiert werden müssen.

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