



TOOL 3: THE EXPECTED REFORM IMPACT – WHAT IS AT STAKE?

The analysis of distributional effects of reforms at the macro- and micro-levels looks at the access to resources of different groups and individuals as well as the distribution of benefits and power.

1. Introduction

The distribution of reform benefits.

Pro-poor growth is at the core of development cooperation. For this reason, it is paramount to look at the impact of planned or implemented reforms on vulnerable groups. An impact assessment “can help increase the effectiveness of policy reforms to reduce poverty by: underpinning policy reforms with empirical evidence on expected distributional impacts; identifying alternative policy reforms and trade-offs; identifying political economy and implementation risks; [and] supporting country ownership of reforms by promoting a public debate on trade-offs between policy choices”.¹ An assessment also helps to determine the sustainability of the reform. Thus, whereas the previous Tool 2 (“Drivers of Change”) is more a snap-shot analysis of a given configuration of actors, institutions and reform spaces, Tool 3 is more prospective and more directly oriented towards the core topic of pro-poor growth.

Tool 3 is a tool that can accompany a whole project cycle – making impact estimations in the planning process, assessing impact during the implementation phase so as to guarantee an effective steering (and response to possible risks), and using the lessons learnt for the design of future reforms.

Questions that Tool 3 should help to address.

1. What are the direct and indirect distributional impacts of reforms?
2. Through which fields (prices and wages, employment, access to goods and services, assets, transfers and taxes, and authority) do the reform impacts transit? Do the impacts differ for particular groups and/or fields?
3. In which ways do the reforms affect different groups? Which are the reforms’ winners and losers?
4. Do impacts vary over time? Does this lead to an alternation of positive and negative impacts over time?
5. How sustainable is the new-achieved balance?

Keep in mind.

- In trying to assess the impact of reforms, the idea is not to apply a **single, overarching conceptual framework**. Rather, it is to allow for a structured, but **country-specific and flexible** set of questions.

¹ *Good Practice Note: Using Poverty and Social Impact Analysis to support Development Policy Operations.* The World Bank, August 2008.

- Have a **clear focus** and a **clear idea of the future use** of the analysis. Keep the **operational implications** in mind from the onset.
- The analysis should have a **multidisciplinary, holistic approach** and not simply focus on pro-poor policies – the multiplicity and diversity of stakeholders mean reform processes are complex, and reform losers might be powerful interest groups that could derail the entire reform process.
- Make sure the **analytical techniques and research methodologies** are **transparent and accessible** to all relevant stakeholders.
- Make sure the consultation comes with a **determined local participation**. If purely donor-driven, the likelihood of over-looking important factors and repeating conventional wisdom is high. Address the interest of the public through early information-release and try to foster a public discussion on the analysis *before* it is undertaken.
- Plan your **strategy for dissemination, engagement and influence** of the assessment from the onset. **A vigorous public debate is essential for anchoring the reform and its objectives in the political dialogue taking place in the partner country and thus, assuring its sustainability**. Keep in mind your different audiences (this might entail producing several, audience-tailored assessments). Avoid jargon and language that unnecessarily complicate dialogue. Be frank where possible.
- **The PED Basic Tools can be used both as a tool for internal SDC reflection and a common reflection tools with the intended beneficiaries of a reform and other actors**. The issue of participation in the reflection process is obviously a core issue that has to be addressed from the on-set. Given the complexities and specificities of the environments in which SDC operates, the Tools do not specifically name the various stakeholders that would exist in these settings, such as reform beneficiaries, political actors, other donors and international organizations. You should determine which participant mix you wish; keep in mind that particularly with poor and disadvantaged beneficiaries, this might be an important step towards an own capacity to voice opinions and arguments (i.e. a combination of an advocacy and an empowerment strategy).

2. The lenses

The document will present 4 lenses, which are different ways of attention and looking at distributional effects. These lenses are a tool-box that should be adapted to the country- or sector-specific context. This also means that **not all the lenses have to be applied** – in fact, even one can be enough.

[Lens 1: Looking at the micro-economic impact: livelihood systems.](#)

[Lens 2: Looking at the macro-economic impact.](#)

[Lens 3: Visualizing the distributional impact fields.](#)

[Lens 4: Reform outcomes in terms of capabilities to participate.](#)

Lens 1: Looking at the micro-economic impact: livelihood systems².

Livelihood systems are a “large-area” approach for food crisis and famine prediction, assessment, and monitoring, but can be used in a wider range of contexts to inform policy making and programming. The aim is to understand how households make ends meet under both normal and abnormal conditions. It also generates detailed budgets for defined categories of household and detailed information about the size of household income as well as its composition and variations.

How to apply the lens

1. **Define the contrast groups** (that is, specified groups or groups of households within a broader economy) for which analysis is needed. These groups are economic rather than administrative divisions and so might not correspond with administrative boundaries. For analytical purposes, these contrast groups can be divided into sub-groups.

Contrast groups might include the differences between urban, semi-urban and rural areas of the country; poor vs. extremely poor; extended family vs. core family; single-mother-households vs. households with both parents; households with many children vs. households with only a few children, etc.

To give an example, you might be interested to find out how reform impacts will impact citizens both in the urban and in the rural areas. As contrast groups, you could pick a middle-class neighbourhood in a major city and a small town in a remote part of the country. Then, if you feel you need additional depth, you could divide the contrast groups into sub-groups based on general criteria - how long these people have lived in their respective neighbourhood or town, whether they are employed in the formal or informal economy, etc.

2. **Define and describe household categories within each contrast group.** Households generally constitute the nuclei of micro-economic impact assessment. A household is an easily-understood and generally accepted social and economic set, which makes defining it relatively easy. There might be precise local terms and definitions used to define different household categories; use them in the research.

Understanding how a household works as a social set is intrinsically linked to understanding the economic role it plays – remember, at its core an economy is an interaction between people as well. Within each contrast group, identify the different wealth and social categories (which more often than not, might be similar) that local people use to describe themselves and others. Establish the distribution of households within the wealth categories that are defined. Key informant interviews and/or local analysts using participatory tools (such as wealth ranking and social mapping) are useful methods at this stage.

For each of the defined categories, describe how the households in these categories are socially structured. In this regard, pay a particular attention to a gender-differentiated analysis. Then, describe how, in a “normal” or baseline year, a typical household in each category obtains its income and any differences between richer and poorer households. A baseline year reflects the usual conditions (in terms of production and exchange) found in the area and the way people normally live there. In areas where household incomes vary greatly from year to year it might be necessary to take a range of years and average them

² This tool is based on the Household Economy Approach (HEA) in: *Tools for Institutional, Political, and Social Analysis of Policy Reform. A Sourcebook for Development Practitioners*. The World Bank, 2007.

into a “normal” year. When looking at households, remember that the definition of a “typical household” might vary in different contexts.

Also, try to describe the mechanisms households use to react when they are under economic pressure (i.e. a negative external economic factor), as this gives a possible insight into how they might react to a positive external economic factor (i.e. the reform).

Base the description of the household economy on information and data regarding household production, cash income, seasonal patterns of income, expenditure on food and non-food items (such as taxes, fuel, loan repayments, education and healthcare), assets (such as food stocks, livestock, and cash), the markets used to exchange different commodities, and the price of all the items exchanged. Where possible, gather data on longer-term trends in production and cash income.

In the case of the contrast groups defined in the first step, you would now define and describe the entire neighbourhood/town or the afore-mentioned sub-groups.

- 3. Describe the economic context to which the households relate.** The description of the economic context in which the households live should contain all the information necessary to both understand their current access to income and other resources, and the potential for expanding income under different conditions. Describe the economic context in terms of the markets used by households to exchange different commodities and labour as well as nonmarket transfers of food and goods between households. Markets form a link between the household food economy and the wider economy. Examine how households normally use market exchange to acquire income in terms of six general areas: livestock, crops, non-food production (such as firewood and handicrafts), food, paid employment, and self-employment. Describe who sells and/or buys what and where. If people use more than one market, describe the relative importance to the household of each market. Collect data on – and describe the extent to which – non-market transfers and redistribution between households (such as food, livestock, and cash on nonmarket terms) can enable household needs to be met under conditions of reduced income.
- 4. Analyze the impact of reforms.** Use the description in the previous steps as a baseline from which to understand the likely micro-impact of any economic and social changes that might occur as a result of reforms. Changes might affect any of the “normal” household sources of income, or the wider economic context that a household depends upon for exchange (for example, a change in the price of a commodity produced or consumed by the household), or a combination of both. They might also affect the way the household is structured as a social set.



Lens 2: Looking at the macro-economic impact.

After having looked at the household nucleus, it is important to also look at the broader economic impacts of reforms. While this can be done to some extent by simply aggregating the information you were able to gather on different contrast groups, it also entails looking at how public policies have been impacted and have evolved through reforms.

How to apply the lens

An economic reform generally implies a change in the structure of public finances. In a first step, you should therefore look into how fiscal policy and transfers (i.e. what the State perceives from all citizens and what it gives back to some of them on specific grounds) have changed in the wake of a specific reform. This would include looking at both direct and indirect impact – a VAT raise, for example, might *directly* lead to a decreased public consumption and thus *indirectly*, to less business taxes being paid. This information should generally be available from the partner country's government (Finance Ministry, statistics departments etc.).

Once you have gained a broad overview over the impacts of the reform, you should take a deeper look into one or two main specific elements that either stand out in the over-all findings or that are anyway, the main focus of your work.

For example, within a general tax reform, you might want to look at how the taxation as well as the transfers for vulnerable groups will (or will not) change.

Impacts	Employment	Prices of production, consumption, and wages	Access to goods and services	Tangible/intangible assets	Transfers and taxes	Authority
Short term (ST) / Medium term (MT)	ST MT	ST MT	ST MT	ST MT	ST MT	ST MT
Element						
...						
...						

For determining the macro-economic reform impact with regards to these elements, conduct an analysis of the six reform impact fields detailed in Lens 1 in small groups of about six to eight people:

1. Draw the matrix above onto a flip chart.
2. Agree on the specific elements to be discussed and write them down in the corresponding spaces.
3. In the discussion, determine the group perception of the impact of the reform on these specific elements. Make sure to look at both direct and indirect impacts.
4. Assign indicators to grade whether an impact is positive or negative: ++, +, 0, - and --.
5. Do the counts for each specific element (++ equals 2, + equals 1, - equals -1 and -- equals -2) so as to be able to determine which element will have the biggest positive (and negative) impact within a reform.
6. By looking at both the short and the medium term, determine the sustainability of the reform impact on the specific elements.
7. Use the same matrix for the assessment of the impact of other reforms. This also gives the possibility to compare the impact assessments of different reforms.

Lens 3: Visualizing the distributional impact fields.

The World Bank's Poverty and Social Impact Analysis (PSIA)³ identifies **six fields through which reforms might cause distributional impacts**⁴:

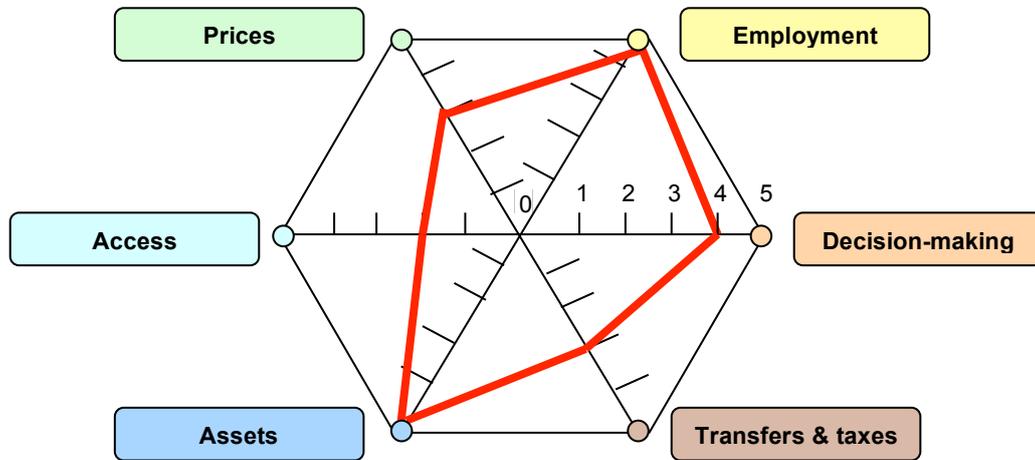
- **Employment:** To the extent that a policy change affects the structure of the labour market or the demand for labour, particularly in sectors that employ the poor (such as unskilled, rural off-farm, and agricultural labour), the welfare of low-income households will be affected. These welfare changes might trigger other effects such as changes in status, self-esteem, or access to social network, which in turn impact social exclusion and vulnerability. Transmission may be direct (for example, through public sector retrenchment or new employment opportunities) or indirect (for example, through macroeconomic growth, exchange rate depreciation, trade, or market liberalization) and may differently affect formal and informal sectors.
- **Prices of production, consumption, and wages:** Prices determine real household income. Prices include both the actual monetary price paid and opportunity costs (for example, of queuing) and costs incurred through rent-seeking behaviour. Price changes will affect both consumption and resource allocation decisions. Wage changes will affect net buyers and sellers of labour differently; policies that change relative prices will induce shifts in both demand and supply.
- **Access to goods and services** affects well-being. Reforms can impact access directly by enhancing the provision of infrastructure or services in question, or indirectly by removing constraints to access by particular households or groups. Structural or cultural norms or rules (such as restrictions on female mobility or female property rights) might also impose higher transaction costs or create barriers to access, some of which are more amenable to policy actions than others. These types of reforms will have the authority channel as the main channel and access channel as a supporting channel.
- **Tangible/intangible assets:** Policy changes—such as land reform, reallocations of public spending, or macroeconomic policy—can have a direct or indirect impact on people's ability to invest in or draw down on their assets or to maintain returns to their assets. Asset endowments include physical (such as housing); natural (such as land, water); human (such as education, skills); financial (such as a savings account); and social (such as membership in social networks that increase access to information or resources) capital.
- **Transfers and taxes:** Welfare is affected by transfers that can take the form of public flows (such as subsidies and taxes, which can be pro- or regressive in their distributional impacts) or of private flows (which play a significant role between urban and rural areas and remittances from workers employed abroad). Illegitimate or illegal transfers, such as protection money, can also have significant distributional impacts.
- **Decision-making:** This channel covers changes in power, structures, and processes that govern the formal and informal function of public institutions. It can operate at the macro level (such as public service reform), at the meso-level (such as decentralization of administrative authority), and even the micro level (such as redirecting welfare payments from men to women). This channel encourages analysis of the likely impact on state actors

³ Please note that the present Tool is meant as an easy-to-use, practical instrument. For more detailed concepts on carrying out Political Economy analyses, see the World Bank's Poverty and Social Impact Analysis (PSIA) and/or the OECD's Poverty Impact Analysis (PIA).

⁴ The following text elements are taken from: *Tools for Institutional, Political, and Social Analysis of Policy Reform. A Sourcebook for Development Practitioners*. The World Bank, 2007.



and citizens of changes in decision-making behaviours and interaction that result from new alignments of rights, obligations, incentives, and sanctions. Second-round analysis through this channel might also explore, for example, how individuals and groups react by expanding or diversifying their livelihood strategies or by changing their behaviour on the understanding that there is greater responsiveness and accountability in the system. Some groups might seek to undermine the new decision-making structures or sets of rights by limiting their implementation or by using other influences to stop others from making use of their new entitlements.



How to apply the lens

Determining the distributional impact fields is best carried out in small groups of about six to eight people, using the matrix below and following these steps:

1. Discuss in the group how much each field will individually contribute to the reform impact. The working hypothesis for this lens is that a reform should have a major positive impact on vulnerable, poor groups, and that this impact will furthermore be proportionally higher than for other population groups (i.e. a pro-poor growth, as opposed to a general growth). Therefore, try to look separately at the impact on vulnerable, poor groups and on the general population.
2. Assign a value between 1 and 5 to each field (with 5 being the highest value) for both the poor, vulnerable groups and the general population, and mark them on the above hexagon, linking the different fields together. The visualization allows you to determine whether a reform will lead to pro-poor growth. It will also help to identify which fields are already used, and to reflect whether other fields should and could be increasingly used.
3. Use the same hexagon for the assessment of the impact fields of other reforms. This also gives the possibility to compare the way different reforms use different fields, and determine possible field synergies.

Please note: the idea is to discuss how the fields contribute to the reform impact (in order to determine the reform channels to work with), not how the reform impacts on the fields or vice versa. As the contribution can rank from nothing to all-out, we have only given the possibility of using positive values here.

Lens 4: Reform outcomes in terms of capabilities to participate.

Going beyond the sole economic perspective of Lens 1 to 3, Lens 4 strives to understand how the reform impacts can generate an increased political and social involvement and voice of the groups targeted by the reforms. According to A.O. Hirschman’s "exit, voice and loyalty" theory, there are two broad possible reactions with regards to the quality of (public) goods: the first one is the “exit”, be it through real or “internal” emigration; the second is to get involved in society and politics and make criticism heard (“voice”) and/or support the corresponding system (“loyalty”).

With regards to the poor and vulnerable groups that are the prime targets of pro-poor growth, they are nearly by definition not adequately included in society and political representation. Given their dire fate and the lack of state actions to help them improve their socioeconomic conditions, they are likely to have chosen an exit strategy (“internal” emigration, possibly even joining illegal groups). In order to give these groups access to their human and citizen rights and in order to allow for conflicts they are involved in to be carried out through peaceful channels, they need be given the tools to participate in society and politics – in a nutshell, to be able to join the sphere of “voice and loyalty”.

The lens looks at five possible categories of outcomes:

- **Economic** (income, access to markets and resources, lowering of inequalities and urban-rural disparities);
- **Human** (access to basic needs, access to knowledge, communication, possibilities for self-expression);
- **Political** (new rules for informed participation in society and in politics, making one’s voice heard, procedures to legitimate and control power, ...);
- **Socio-cultural** (social recognition; rights for minorities, women, youth);
- **Protective security** (human security and risks, protection from discrimination).

Outcomes	Economic	Human	Political	Socio-cultural	Protective security	Details and risks	Mitigation or reinforcing measures
Short term (ST) / Medium term (MT)	ST MT	ST MT	ST MT	ST MT	ST MT	ST MT	ST MT
Stakeholder groups							
Target							
Vulnerable							
Other: ...							

How to apply the lens

Determining the possible outcomes in terms of capabilities is best carried out in small groups of about six to eight people, using the matrix below and following these steps:

1. Draw the diagrams above onto a flip chart.
2. Agree on the specific reform and on the corresponding stakeholder groups to be discussed, and write them down in the corresponding spaces.
3. In the discussion, determine the group perception of the outcome for each outcome-stakeholder group combination. Also, try to look at details and risks and come up with mitigation or reinforcing measures where needed.
4. Assign indicators to each outcome-stakeholder group combination: ++, +, 0, - and --.



5. Do the counts for each outcome (++ equals 2, + equals 1, - equals -1 and – equals -2) so as to be able to determine the groups and the outcomes on which the reform will have the biggest positive (and negative) impact.
6. By looking at both the short and the medium term, determine the sustainability of the reforms.
7. Use the same matrix for the assessment of the impact of other reforms. This also gives the possibility to compare the impact assessments of different reforms.