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Poverty Impact Assessment for Reducing Social Risks and Enhancing Pro-Poor Outcomes of Voluntary Partnership Agreements

This Information Brief describes the role of poverty impact assessment in the context of Voluntary Partnership Agreements (VPAs) between tropical timber-producing countries and the European Union. Ex ante poverty impact assessment can be a powerful tool for design, monitoring and adaptive management of a VPA. This Brief describes a possible approach to poverty impact assessment which will be field tested by Forest Trends.

What is a Voluntary Partnership Agreement (VPA)?

A Voluntary Partnership Agreement (VPA) is a bilateral trade agreement between the European Union (EU) and countries that export wood products to the EU. VPAs are central to the EU's Forest Law Enforcement Governance and Trade (FLEGT) initiative, which aims to improve forest governance through trade-related economic incentives and the promotion of sectoral reforms. Timber-producing countries enter voluntarily into VPAs in order to increase their access to European markets and improve their forest governance. As at September 2012, six countries (Cameroon, Central African Republic, Ghana, Indonesia, Liberia, and the Republic of Congo) had signed VPAs and started developing some of the operating systems; six countries were in the negotiation process; and 15 had expressed interest in adopting a VPA. (See http://www.euflegt.efi.int/portal/home/vpa_countries/.)

Why be concerned about poverty effects?

VPAs, and the processes through which they are developed, have considerable potential to bring about pro-poor policy reforms and result in the empowerment of more vulnerable groups. However, the processes of formalization and legalization, together with stricter enforcement of laws and regulations, could also have negative impacts on those whose livelihoods were previously dependent on formally "illegal" use of the forest (Kaimowitz 2009). The VPA process and its implementation inevitably result in winners and losers, and there are likely to be a range of social or equity effects, some positive and others negative.

VPAs provide a unique opportunity for change and empowerment since they bring to bear the power of markets and political interests in a way that can create opportunities for progressive changes in power structures. A VPA process can empower civil society and its constituent stakeholder groups by giving them policy space and a voice through which they can influence the "rules of the game"' – the legal and policy framework that shapes people's access to the forest resource and its products.

At the same time, however, a VPA entails poverty and equity risks, as is recognized in various FLEGT policy statements. The FLEGT Action Plan (European Commission 2003), for example, stresses that "the challenge is to ensure that actions to address illegal logging, particularly enhanced law enforcement, do not target weak groups, such as the rural poor, while leaving powerful players unscathed." These risks are recognized in the VPA agreement in the form of a social safeguards article that commits the signatories to understand, monitor, and mitigate any adverse impacts of the VPA on local communities or other stakeholders.

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What is poverty impact assessment (PIA) and why undertake it?

In general, impact assessment can be thought of as a type of monitoring and evaluation (M&E). Poverty impact assessment (PIA) is the analysis of poverty and other social impacts of an intervention, such as a VPA, with the aim of reducing poverty and other social risks, and enhancing positive social impacts. PIA is based on a multi-dimensional understanding of poverty, such as that used by OECD (2001:18) "Poverty … denotes people's exclusion from socially adequate living standards, and it encompasses a range of deprivations. The dimensions of poverty cover distinct aspects of human capabilities: economic (income, livelihoods, decent work), human (health, education), political (empowerment, rights, voice), socio-cultural (status, dignity), and protective (insecurity, risk, vulnerability). Mainstreaming gender is essential for reducing poverty in all its dimensions. And sustaining the natural resource base is essential for poverty reduction to endure."

PIA is therefore needed to assess the multiple dimensions of poverty and the range of potential impacts of a VPA, which could be positive or negative, intended or unintended, direct or indirect, and short- or long-term. PIA can be considered as an essential foundation for developing an equitable and effective VPA because of its potential to:

- Contribute to the strategic design of the VPA and therefore to enhance it social sustainability. Experience shows that without the latter, it is unlikely that environmental objectives will be achieved. PIA contributes to the design of a VPA through systematic analysis of the likely poverty or social effects, identification of social risks and ways of preventing or mitigating them, and through developing a robust theory of change of how a VPA can achieve its social objectives.
- Empower vulnerable stakeholder groups when PIA is undertaken at the pre-negotiation or negotiation stage of a VPA. PIA helps create political space and opportunities in policy dialogue, and contributes to transparency and stakeholder ownership in policy formulation, including by clarifying *who* should be at the negotiating table.
- Operationalize the VPA social safeguards article. While it may be relatively easy to identify social safeguards around, for example, poverty and gender, ensuring that they are met is often challenging. PIA can serve as a tool for implementing social safeguards.
- Contribute, via a social monitoring system, to a reliable learning process and adaptive management of the VPA, as well as to early detection of social problems before they become difficult and costly to counteract. The reliability of the monitoring and learning process is founded on a credible approach to explaining cause and effect, or attribution.
- Promote accountability and transparency. A VPA should be accountable downwards to affected stakeholders, especially vulnerable groups, as well as upwards to taxpayers and donors.

How does PIA differ from indicator-based impact monitoring?

Indicator-based impact monitoring generally involves a group of experts and stakeholder groups identifying priority impact areas and then selecting a subset of indicators for each of these with the aim of tracking progress in achieving program goals. This approach seems a relatively simple and low-cost way of assessing whether a VPA is on track in terms of a broad set of goals. The drawback is that it will be difficult to know how much of any positive or negative change is due to the program and how much is due to other factors. In comparison, PIA has the advantage that it:

- Factors in attribution; knowing what caused what is key to a reliable learning process;
- Is process-based rather than expert-based, facilitating participation and empowerment;
- Identifies mitigation and risk-reduction measures;
- Informs strategic design and adaptive management.

When should PIA be conducted?

PIA could be undertaken before (*ex ante* PIA), during (poverty monitoring), and/or after (*ex post* PIA) a VPA (Figure 1), although *ex post* PIA is unlikely since a VPA is likely to continue for the feasible future. It is best to conduct PIA *ex ante*, and in particular at the pre-negotiation or negotiation stage, given its potential to identify key social opportunities and challenges, shape the social design of the VPA, and empower disadvantaged stakeholder groups. In practice, *ex ante* PIA and monitoring merge into a single process since a vital output of *ex ante* PIA is a social monitoring plan, including a set of indicators.

Figure 1: The poverty impact assessment continuum

What are the main challenges for PIA?

The main challenge for any kind of impact assessment is attribution or the establishing of cause and effect. The reliability and credibility of a PIA methodology depends mainly on its capacity to explain and demonstrate attribution. This is fundamental to a reliable learning process and thence adaptive management of the VPA. Other challenges for good practice PIA include:

- The nature of poverty or other social impacts of VPAs: these are likely to be complex, indirect, differentiated (by stakeholder group), deferred (they are mainly mid- or long-term in nature), unexpected and/or contested; they are therefore quite hard to measure.
- An appropriate level of stakeholder participation: grass roots participation, ownership, and transparency are attributes of good-practice PIA, but high levels of participation present challenges, including around time and cost.
- The need for differentiated analysis of stakeholder groups and sub-groups: a PIA should take account of differences in vulnerability, gender, age, livelihoods, tenure, and other social attributes.
- The lack of an existing body of data on the social or poverty effects of VPAs.

What methods are most appropriate and cost-effective for ex ante PIA?

The most commonly used impact assessment method is experimental design or quasi-experimental design, also known as "matching methods". A matching method involves making statistical comparisons between control and treatment groups. While matching methods offer a credible approach to attribution, they face quite severe constraints. These include cost, logistics, difficulties, and ethical issues in selecting controls (especially in a national program), as well as weaknesses in their capacity to identify indirect impacts, promote stakeholder participation and transparency, and in their utility for *ex ante* analysis.

Most impact assessment guides advise using a mixture of methods and ideally a combination of qualitative and quantitative analysis. Our suggested combination of methods draws on tools from the *Poverty and Social Impacts Analysis* (PSIA) (World Bank 2012), *Poverty Impact Assessment* (OECD 2007) and *Social and Biodiversity Impact Assessment* (Richards & Panfil 2011). The choice of tools presented below (Stages 1-3) resulted from a review of poverty issues and methods for VPAs (Hobley & Buchy 2011), discussions with social assessment experts, experience in using social impact assessment (SIA) in the context of REDD+, and a PIA methodology workshop held in 2012.

Stage 1: Stakeholder and institutional analyses

The first main stage of the PIA is a stakeholder and institutional analysis. The main focus of the stakeholder analysis should be on understanding who could be negatively affected by a VPA. It should include descriptions of the coping strategies of vulnerable stakeholder groups and a gender analysis. In some countries it may be possible to use a recent stakeholder analysis conducted for the forest sector, although some additional analysis is likely needed. An institutional or political economy analysis is also needed which should focus on the likely distributional effects of a VPA and its behavioral incentives on stakeholder groups, especially powerful groups who could oppose key VPA strategies (World Bank 2012: 37-38 provides some useful guiding questions for stakeholder and institutional analysis).

Stage 2: Transmission channels analysis

Transmission channels are pathways through which a policy intervention, such as a VPA, affects vulnerable stakeholder groups. Transmission channels analysis is a core tool in the World Bank PSIA toolbox. Six primary transmission channels are generally considered: employment, prices, transfers and taxes, authority, assets, and access to goods and services. Table 1 presents these channels together with some possible guiding questions (the actual questions asked will depend on the specific VPA context).

Table 1: Analysis of transmission channels

Transmission channel	Sample guiding questions
Employment: *Changes to jobs in formal and informal labor markets*	• Who will be affected by industry restructuring and how? • Will employment become less secure or salaries reduced? • Can labor move into different forest-based employment if conditions in one area change (e.g., what happens to chain-saw loggers)? • How much will the work burden for women and children increase?
Prices: *Changes in production/consumption prices (including food) and wage rates*	• What will be the effects of legality enforcement on domestic prices of forest products (firewood, timber for artisans, etc.)? • What will be the effects of price changes in products that are important for the very poor, such as firewood and charcoal? • What will be the effects on food prices and availability if there is strict enforcement of forest boundaries and expulsion of illegal farmers?
Transfers and taxes: *Changes in fees, taxes, revenue, or remittances*	• Will the poor benefit from increased government revenue? • How will increased revenue be spent? • Are reforms likely to change the tax burden for low-income families?
Access to goods and services: *Changes in access to private/public services*	• How will changes in property rights affect vulnerable stakeholder groups? (See also changes in natural assets.) • Will access to services under concession agreements benefit the poor? • Will removal of market barriers (e.g., informal payments) benefit the poor? • Will physical access to services improve (e.g., through road-building)?
Authority: *Changes in laws, policies, institutions, and power relations*	• How will changes in the legality definition affect the rights of poor people? • How will access to decision-making processes benefit poor people? • How will power relationships change for the poor? • What will happen to women's voices and involvement in decision-making?
Assets: *Changes in natural, financial, human, social and physical assets (especially livelihood assets*)	• *Natural*: How will changes in resource access and quality due to a VPA affect livelihoods and coping strategies of the poor? • *Financial*: How will financial assets of the poor be affected (e.g., wage labor effects; access to credit for new business opportunities, etc.)? • *Human*: How will changes affect education, technical/vocational skills, etc.? • *Social*: How will social networks and relationships change? • *Physical*: How will access to infrastructure, schools, and clinics improve?

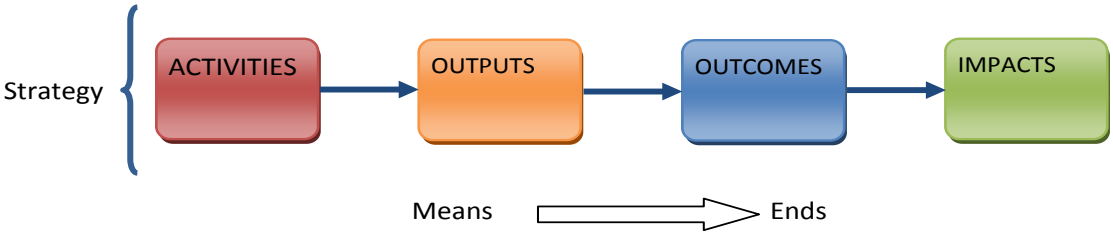
Note: Based on Hobley & Buchy 2011

The primary transmissions channels analysis will lead to the identification of some direct or "first-round" effects of the VPA, for example, changes in authority and law enforcement would have a direct employment and income effect on informal chainsaw operators. It should then be possible to predict some likely "second-round"' or indirect effects of the VPA resulting from changes in stakeholder behavior due to the first-round effects, for example, increased

urban migration and agricultural pressures on the forest. This points to the need for mitigation measures to legalize and incentivize local-level wood production through, for example, community forest management or stronger local tree tenure. Such analysis helps us think about the "knock-on" effects of VPA policies or reforms. The final stage of PSIA is to assess the likely effects on five sets of poverty alleviation capabilities of vulnerable stakeholder groups – economic, security, human, socio-cultural, and political capabilities (see World Bank 2012: 22-26 for further explanation of PSIA).

Stage 3: Participatory theory of change analysis (including indicators and monitoring plan)
A theory of change is a hypothesis of how an intervention such as a VPA will achieve its intended objectives and goals. As with any theory, there is no guarantee it will work. It is based on a set of plausible cause-and-effect assumptions that proponents of an intervention hope will hold true. As indicated in Figure 2, it involves setting out and tracking a set of "results chains" linking an intervention's strategies and activities with its outputs, outcomes, and impacts, and analyzing the cause-and-effect assumptions between them.

Figure 2. Cause-and-effect results chain underlying the theory of change approach



Source: GEF Evaluation Office and Conservation Development Centre 2009.

A theory of change is widely regarded as an essential component of an impact assessment and is increasingly used as an M&E tool by NGOs and aid agencies. It allows attribution, facilitates stakeholder participation, promotes strategic design, and establishes a monitoring system that informs adaptive management. A recent DFID review of the theory of change in development found that it "provides the basis for collecting evidence, checking other possible explanations as counterfactuals, and presenting a case from which cause can be reasonably inferred and linked back to the programme" (Vogel 2012: 45).

In the PIA methodology proposed here, VPA stakeholder groups (or their representatives) come together in a workshop[1] informed by the studies undertaken in Stages 1 and 2. Following appropriate training, workshop participants:

- Develop theories of change of how the poverty and other social objectives of the VPA can be achieved (or how the constraints to success can be overcome);
- Identify potential negative social or poverty impacts and risks of the VPA;
- Propose mitigation or risk-reduction strategies which can be incorporated into the VPA;
- Identify monitoring indicators based on causal linkages and assumptions in the results chains; and,
- Develop a social monitoring plan.

For further guidance on participatory theory of change analysis see Richards & Panfil 2011: 20-52.

[1] A detailed description of the workshop methodology is found in Richards & Panfil (2011).

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Conclusion: Is the cost of PIA worth it?

The cost of undertaking PIA of a VPA is likely to be in a range of US $80,000-120,000, depending on factors such as the mix of national and international consultants, the social complexity of the forest sector, the diversity of the country and its forest production systems, and the size of the country (this affects workshop travel costs). It should be possible to conduct a PIA study over a 3-6-month period.

Although this is a significant expenditure, it is a fraction of the costs of developing and implementing a VPA. These costs should also be considered against the wider benefits of a PIA, which extend beyond achieving an understanding of the likely social impacts of a VPA. If done well, *ex ante* PIA will also contribute to the social sustainability of a VPA through more strategic design and reduce the risk of failure due to social or political reasons. PIA can contribute to social sustainability in many ways, including: design of appropriate mitigation and risk-reduction actions; increasing stakeholder participation and transparency; helping empower vulnerable stakeholder groups in policy processes; and informing the social learning process and adaptive management of the VPA through its monitoring system. Finally, as already noted, the VPA social safeguards article commits each participating country to understand, monitor, and mitigate the potential adverse social impacts of the Agreement, and it is difficult to envisage how this could be done in the absence of a systematic PIA.

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