

Element 4: Assessing institutions

As discussed above, institutions affect the impact that policies have on poverty and the welfare of different households or groups. First, institutions mediate the transmission of certain policy impacts to people. Understanding social and market institutions helps to understand impacts of a given policy change (such as deregulation, privatization, or removal of an export tax). Second, institutions are often the object of many types of policy reform. Privatization, civil service reform, decentralization, and expenditure management reform are examples of institutional reform that involve changes in the incentives and rules that govern public and private organizations. Third, many policy changes depend on particular organizations for their implementation. The incentives, performance, and capacity of these organizations will be critical to the actual implementation of the policy and thus its impact. Fourth, aside from well-known barriers to entry faced by the poor, institution-specific intents of the reform may introduce new transaction costs stemming from information asymmetry and bounded rationality that affect market behavior or access to public services (Powers 2003). Two key areas of focus for PSIA are the analysis of market structure and the analysis of implementing agencies.

Analysis of market structure

Surveys among consumers and producers of goods and services can be useful approaches to enhancing understanding of context-specific market structure. Identifying the nature of the market (monopoly, monopsony, oligopoly, perfectly competitive, etc.) and what determines this market structure (natural monopoly, restrictions to entry, or collusion, for example) is a crucial first step toward understanding the enabling conditions that would need to be created for market reform to lead to improvements in performance and better outcomes for the poor.

Enterprise (or trader) surveys can be useful for understanding the nature of the market, the number and types of economic agents, and market constraints, as well as de jure and de facto barriers to entry and transaction costs. In the case of privatization or liberalization, where an assumption is that market entry will lead to competition and price reduction, it might

also be useful to undertake concurrently an analysis of the constraints to private sector entry and participation. Quantitative or qualitative household surveys can also reveal who buys services, where, and at what price. Quantitative service delivery surveys and citizen report cards can be applied to the analysis of the effectiveness of state marketing agencies. Price analysis is always useful in ascertaining the competitiveness of a market and of market structure.

Analysis of implementing agencies

In judging the likely poverty impacts of reforms that involve a change in government responsibility, or cooperation among government agencies or other implementing agencies, the flow of decisionmaking, information, and resources within and among organizations needs to be considered (see box 4). Two options for collecting this kind of information are organizational mapping and the institutional assessment tool.

Organizational mapping is a method that enhances understanding of the internal behavior of organizations by creating an inventory of the actors carrying out reforms and explicitly revealing relationships among them. Organizational mapping has two components: static mapping and process mapping. *Static mapping* identifies ex ante the specific public actions associated with a policy reform, and the organizations (which may be outside government) responsible for implementing them. It maps out the relations among the implementing agencies and identifies those expected to support or obstruct the reform. The exercise is informed by earlier stakeholder analysis (see the section above on identifying stakeholders) of government and other organized actors. *Process mapping* draws on work carried out to improve efficiency in the public and private sectors in industrialized countries (Hunt 1996). It identifies current practices and norms in relevant organizations that cannot easily be gleaned from documents or diagrams. It does so by tracing flows of critical resources, decisionmaking authority, and information in the current system. This helps create an understanding of the rules and incentives that affect internal behavior and the extent to which organizations pursue development objectives. Process mapping can help identify constraints to effective policy implementation at three levels: in organizational pro-

cedures, in the relationship between organizations, and in the relationship with the authorizing environment. Addressing them may require fine-tuning procedures, recasting fundamental rules of operation, or even replacing entire organizations. Process maps are constructed through in-depth, semi-structured interviews with staff at all levels of the organization, focusing particularly on those at the “front line” of delivering services. The main advantage of organizational mapping is its ability to expose a problem area that may not be readily seen by relying directly on stakeholders to describe their interests and constraints (see box 4). A drawback is that it is more time-consuming, costly, and technically demanding than guided questionnaires. Good process mapping needs to be used iteratively to test assumptions by monitoring institutional performance over time.

The **institutional assessment tool** was designed to permit an institutional analysis of various components of a project. The tool consists of questions that help the

analyst structure thinking about the complex relationships and processes within organizations upon which reforms depend.⁵ The questions are used to evaluate the effectiveness of institutions, from performance incentives to their capacity to implement policy. They address key issues of relevant organizations, including: (a) roles; (b) knowledge and access to information; (c) incentive structures; (d) receptivity to policy change; (e) capacity; (f) resources or financial clout; and (g) scope to adapt to the new reform agenda. The advantage of the institutional assessment tool is that it can enable more systematic analysis of issues ranging from political incentives to administrative capacity at low cost. The disadvantage is that the tool relies on a desk assessment, and lacks the interactive dimension of interviews with staff of the organizations that are being reformed. The tool is currently better suited for the analysis of institutions with respect to investment operations, but it could be used to assess institutions in the context of the implementation of policy reform.⁶

Box 4. Decentralization in Indonesia: Institutional Analysis and Social Accountability

A research team led by Scott Guggenheim carried out an institutional analysis of village-level governmental structures and traditional village decisionmaking bodies in Indonesia as part of a decentralization project designed to address corruption and top-down decisionmaking. The Kecamatan Development Project (KDP) was committed to using local capacity rather than developing a separate project implementation unit. The analysis, conducted through focus groups and interviews with government officials, helped to identify the relative strength and capacity of existing systems, the flow of money and information, and the location and nature of decisionmaking in the chain. The project changed the role and authority of those structures, shifting the locus of power within the system from regional governmental bodies to village councils. Through the interview process, the team identified the Village Infrastructure Project as a field-tested means to get money directly from central accounts to the vil-

lage level. An existing government agency, the Department of Community Development, acted as a partner and enforcing agency.

The KDP used transparency and social accountability to make the new institutional structure work. Existing village councils at the *kecamatan* (subdistrict) level, which were formal organizations that had met once a year to feed into the government’s planning process, became the primary decisionmaking bodies. Decisions on proposals from villages were made in public meetings of the council, procurement forms were limited to one page, expenditure information was kept on cash ledgers, and information about the program was disseminated through posters, flyers, and radio broadcasts. Further, the KDP worked with the Association of Independent Journalists to ensure media coverage and gave small grants to reporters to build capacity for independent reporting.

Source: National Management Consultants 2000.