

Ilo Program Performance Report 2002

Cornell University - Economic Analysis

Introduction

As Madagascar went through dramatic political problems that caused significant disruption in the functioning of the economy and of the government in the first half of 2002, the targets that were set in the proposed implementation plan for 2002 were not reached. However, the Ilo program responded - to the extent that this was possible given the circumstances - to the new challenges of a rapidly changing situation and was successful in adjusting its program to the demands of policy makers in the new political situation. In any case, due to the problems, disbursement was lower than planned and less activities could be done than were programmed. To be able to finish the project deliverables, a demand for a no-cost extension was prepared for and accepted by USAID. The initial project closure date of the end of February 2003 has now been set to the end of August 2003.

The achievements of the Ilo program in 2002 are discussed in detail below. The first section discusses the analytic side of the program. Then, contextual developments are looked at. The third section gives an overview of training and capacity building courses. The report finishes with dissemination and outreach activities.

1. Analysis

1.1. Poverty dynamics: trends and causality

The Study S3 on economic mobility between 1993 and 1999 was published jointly by INSTAT and Cornell and was disseminated widely. It uses a methodology to study poverty evolution over time. Given close collaboration with INSTAT staff, capacity has been built to use this methodology for future analysis and policy making.

1.2. Agriculture and poverty

S8: *Agricultural productivity.*

Two studies were published in the FOFIFA series and were made available to a large public:

- FOFIFA, Cahier de recherche en économie et sciences sociales, no. 3, Déterminants de l'adoption des techniques de conservation de sol.
- FOFIFA, Cahier de recherche en économie et sciences sociales, no. 4, SRI et les contraintes d'adoption des techniques améliorés

In both studies, socio-economic constraints to improved agricultural technology adoption were illustrated. It is statistically shown that SRI ("Système de riz intensive"), a seemingly promising technology to improve the low rice productivity in Madagascar, is not a miracle cure for increased rice productivity and that high disadoption exist in the Malagasy context, due to its high demand for labor during peak periods and due to its need for perfect water management that rarely exist in Malagasy rice production. These findings will be taken into consideration in future agricultural extension efforts and policy design.

We started analysis on the new national household data set collected by INSTAT in 2001. This is the first time in the last ten years that updated agricultural data at the national level are available (due to our collaboration with INSTAT). One publication was finalized in an English version: “Transaction costs and agricultural productivity: Implications of isolation for rural poverty in Madagascar” (by David Stifel, Bart Minten, and Paul Dorosh). The results show and quantify the strong linkages between remoteness and low agricultural productivity. The results of the studies were already appropriated by the World Bank as their new CAS (Country Assistance Strategy) uses the argument of the benefits of a better road network in Madagascar (quoting results and analysis out of this study) to justify a large transport project. The results of the study were also presented to the board of Ministers and the President. This strengthened their argument to make roads a priority for development in Madagascar.

S9: Link poverty, environmental degradation, and agricultural productivity.

In 2002, the data of the new commune census that was finished in 2001 were entered, verified and cleaned. The data are being put in a format to make mapping exercises possible and to allow in-depth analysis. In 2002, two analysis were finished by the Ilo program. They include:

1. The voice of clients: Priorities for development as stated by communal focus groups (a policy brief was prepared and the study was presented in a public forum attended by around 200 people)
2. The state of transport and the benefits of roads in Madagascar.

The study was presented in a widely attended meeting by key policy makers of the Ministère de Travaux Publics and the Ministère des Transports.

On top of the analysis done and planned by the Ilo program, the Commune census leads to increasing demand by several projects, NGOs, the government and communes. The data that were gathered fill a huge gap in the lack of reliable data at local and disaggregated level. These data have been shared with several organizations to help them in better preparation of projects and interventions. They include:

- preparation for the project on the impact of the cyclone Kesiny (Ministry of Agriculture and FAO)
- preparation for the project on fishing villages in the south of Madagascar (Ministry of Agriculture and FAO)
- preparation for projects by the ONG Feedback Madagascar (Fianarantsoa)
- several mayors used the data of their commune as well as data of their fivondronana
- help in setting up the baseline for the study of the impact on poverty of a large mining project in Fort-Dauphin by QMM
- preparation for the environmental impact study of the port activities in Manakara (Aquaterre)
- transport intervention planning by the national PST (Projet Sectoriel Transport of the government)
- risk assessment and vulnerability studies in Madagascar (CARE/SIRCAT)
- study and preparation of fiscal decentralization in Madagascar (World Bank)
- food security analysis (SICIAV/FAO – food security project)
- analysis of railway situation (regional information unit province of Fianarantsoa - UTC Fianar)
- analysis effect of FID interventions on welfare households (FID – Prime Minister’s office)
- identification of communes to work with in Tamatave (IFAD)
- identification of communes where the project will do pilot experiments in the new Projet Minier (Ministère des Mines)
- vulnerability studies and social protection policies (World Bank)

b. A study on the effect of deforestation on lowland rice productivity was finished. This study was done in collaboration with ONE (Office National de l'Environnement) and the USAID funded PAGE project (Projet d'Appui à la Gestion de l'Environnement). The results were published in the new FOFIFA working paper series. The study shows the relative low domestic direct benefits of forests. Moreover, even if local farmers would be willing to contribute to conservation, their willingness-to-pay is often insufficient to achieve forest preservation. The results also indicate the level of compensation one would need to have farmers abandon slash-and-burn agriculture. Together with the results of the other environmental economics studies that Cornell put in place, these results are the basis for the economic analysis to justify priorities in interventions in the PE III (Projet Environmental III: the national environment project planned by the government to be financed by multiple donors), a new \$150 million project.

1.3. Demand driven analysis

S14: *The political crisis: social and economic consequences and recommendations for policy.* Cornell was able to react quickly on the urgent need to evaluate the impact of the crisis. A survey was organized in the middle of the crisis (June 2002) under difficult circumstances to study the impact of the political crisis. A series of policy briefs was started that present the results of these studies. The themes that were treated, included:

1. The impact of the crisis: results of a rapid rural appraisal
 2. Example of the impact on the industrial sector: the cotton sub-sector (in collaboration with UTC Mahajanga)
 3. The political crisis and welfare and income
 4. The political crisis and food prices and PPN
 5. The political crisis in the agricultural sector: impacts and implications for policy
 6. The political crisis in the health sector: impacts and implications for policy (based on the commune survey; in collaboration with INSTAT)
 7. The political crisis in the education sector: impacts and implications for policy (based on the commune survey; in collaboration with education workgroup)
 8. The political crisis and insecurity
 9. The political crisis and priorities for development
- These studies and analysis filled a huge demand for updated information on the impact of the political crisis (see Box 1).

Moreover, Cornell worked closely with different institutions to monitor and analyze the impact of the crisis:

1. It collaborated closely with the national “food security group” (an organization of donors, initiated by USAID) to put a monitoring system in place on food and PPN prices all over the country during the crisis. More specifically, it helped in the analysis and the interpretation of these data (in collaboration with Linkages).
2. It collaborated with INSTAT on two initiatives:
 - a. Given the risk of devaluation and hyperinflation after the economic standstill during the crisis, INSTAT produced a study on “Devaluation and domestic prices: lessons from the previous devaluation in Madagascar”. This was presented in a public forum (INSTAT point Information), which was attended by over 300 people. Results were further disseminated widely by the national press.
 - b. Cornell provided financial and technical support to the start-up of price monitoring and index calculations by INSTAT that were stopped after the crisis unfolded. Given the impact of the crisis on price inflation, there was clearly an urgent need for such a yardstick. As the index is used as a basis for salary adjustments in the formal and government sector in Madagascar,

employees and employers now had an objective measure for their discussions and subsequent wage adjustments.

Success Story 1 : The impact of the political crisis

The Malagasy economy was hit hard due to roadblocks and lack of fuel during the political crisis. However, given the rapid changes in the economy of the country, no updated numbers and analysis existed on the havoc the crisis had caused and therefore on priorities for policies. In difficult circumstances, Cornell put in place a representative survey in June 2002 in half of Madagascar's provinces to address this urgent need. Interviews were organized with communal focus groups and a large number of health centers and schools were visited to assess the impact. The results were presented one month later to a broad public. It was made sure that the information, described in short policy briefs on different sectors, was presented in a format easily accessible to policy makers. The presentation was attended by several hundreds of people and was widely covered by national media.

One week after the public dissemination of the results, the new government and all the donors of Madagascar organized a meeting (the Friends of Madagascar meeting in Paris in July 2002) to discuss a new aid package for the country. As this survey was the only statistical source on the impact of the crisis, the results were immediately used by donors and the government alike and formed the analytical background for the economic strategy that both agreed upon to get the country up and running again.

Two examples illustrate the direct effect of the analysis on post-crisis policy making. The survey of the health sector showed that visits to health centers dropped by more than 30% during the crisis partly because medicines were not available anymore (due to the transportation problems) and partly because the local population did not have the liquidity to pay for the health services. While the effect on the supply side were well anticipated, this was less so for the demand side. It was subsequently decided by the government that cost recovery policies would be revised for a temporary post-crisis period to mitigate the effect of the reduced income on formal health care use. A second example concerns the rural security problem in the country. In the survey, most of the communes mentioned a large increase of crop and cattle theft since the crisis. The government acted accordingly in the post-crisis period to deal with this problem. An anti-*dahalo* (cattle theft) policy was put in place and reducing insecurity was made one of the priorities in the new government budget.

S15: *Social and economic recovery after the crisis.* A new survey, representative at the national level, was started in November to monitor how schools, health centers and communities recovered since the end of the political crisis and what policy can do to mitigate the effects of the aftermath of the crisis. Results are expected in the beginning of 2003.

2. Contextual developments and linkages with other programs

2.1. The Poverty Reduction Strategy Paper (PRSP)

a. Cornell helped INSTAT in the design, implementation, data entry and verification, and the analysis of the household survey that was set in place to monitor poverty over time (as INSTAT was mandated to do so in the intermediary PRSP). INSTAT staff traveled to Ithaca to work with David Stifel and a World Bank consultant to work together on the analysis of the poverty data. A correct methodology is now in place and capacity has been built that allows INSTAT to monitor poverty correctly and evaluate the impact on poverty of the interventions of government, donors and private sector for years to come.

b. Cornell financed INSTAT collaborators to participate and present an analysis on the link between environment and poverty in the PRSP preparatory workshop that was held in Mahajanga

in November 2002. For the first time in Madagascar, statistical data on poverty-environmental linkages were disclosed to the public. It therefore improved the public debate substantially.

c. Cornell organized in collaboration with INSTAT and the World Bank another public forum (INSTAT Point-Information) in the beginning of October. In this forum, the poverty map, the new poverty numbers based on the EPM 2001, and the spatial priorities for development were presented. The forum that was attended by around 200 people was very successful and had direct influence on high-level decision making (see Box 2).

Success Story 2 : Poverty and policy priorities

Another example of the impact on high level policy making by Cornell University were its studies on policy priorities for poverty reduction. While Madagascar showed high economic growth rates between 1999 and 2001 and the country seemingly progressed tremendously - to an outside visitor's view - during that period, the impact of this growth on poverty reduction for the country as a whole was not clear. Cornell helped the local national institution for statistics (INSTAT) in the design, implementation, and analysis of the new household survey. Moreover, in an innovative survey organized by Cornell University, all Malagasy communes were visited in 2001 with the purpose to better understand the situation on the ground and to solicit the opinion of communal focus groups on investment priorities.

The results of the analysis of this household survey showed that, while relative poverty declined slightly during that period, the absolute number of poor still increased. The situation of the extreme poor even worsened. Hence, the positive overall economic growth that was noticed between 1999 and 2001 did seemingly benefit only a small part of the population. The commune census showed that the priorities of development as perceived by the local population - using a participatory approach - were agriculture, roads, and security. These results indicated that the growth strategy followed during the 1999-2001 period (where these three sectors did not show large changes) was not tailored to the demands of a big part of the local population.

The results of this study were presented to a broad public in October 2002 and were widely covered by all national newspapers as well as TV and radio. They initiated an informed debate at the national level as the results were for example used as background material for several meetings on post-crisis policy priorities setting for rapid poverty reduction between the president, the government, and the World Bank. The results of these meetings are reflected in the new strategic decisions by government and donors alike.

d. Cornell financed the work of the economists in the provincial Unité technique (UTC) in Mahajanga and Fianarantsoa, in collaboration with PACT, towards further mobilization and information of civil society in preparation of the final PRSP.

2.2. BASIS CRSP program

a. The purpose of the program is to study the dynamics of welfare and its determinants in rural areas. This will help for better policy setting. A household survey was started in the field at the end of 2002 to follow the same households as those surveyed in 1997. Cornell helped in training, implementation and conceptual design. Analysis is currently underway.

b. Ilo collaborators attended a training in bio-economic modeling in Ithaca in November 2002. This model will serve as a tool to evaluate ex ante the impact of policy interventions in rural areas.

3. Training and capacity building

Cornell conducts all analytical studies jointly with local partners, INSTAT and FOFIFA, and in some cases including other interested individuals or institutions as well (such as SIRCAT, PAGE, ONE, PST, etc.). In addition to this on-the-job training, several topics of importance and broad interest enough merit broader formal training workshops. In the year 2002, we organized three such formal trainings.

3.1. *Training 1. Applied economics.* In October 2002, Bart Minten gave a series (six) of lectures for last-year economic undergraduate students at the University on applied economics. Lectures notes were distributed and discussed. Around 60 students attended these lectures.

3.2. *Training 2. Bio-economic modeling.* In November 2002, a bio-economic modeling course was given in Ithaca by the BASIS CRSP program. Ilo collaborators participated.

3.3. *Training 3. Agricultural and environmental economics.* In December 2002, Bart Minten participated in teaching in the new doctoral program in rural development that was started up at the University of Antananarivo. He gave a series of lectures on the economics of agriculture in Madagascar. Around thirty-five doctoral students attended these lectures.

4. Dissemination and public dialogue

We continued our dissemination effort in 2002 in collaboration with our Ilo partner PACT through our work with the communication departments of INSTAT and FOFIFA and through improved regional outreach.

4.1. *INSTAT.* We worked with INSTAT to improve outreach and dissemination

- Reports and policy briefs were prepared and were presented in national public fora. In total more than 2000 copies of policy briefs were distributed. The public presentation included 2 widely attended INSTAT point Information : 1 Impact of the political crisis: at least 300 people attended and the results were covered widely by the press; 2. Poverty analysis: about 200 people attended and results were widely covered by the press. On top of this, an extended e-mail mailing list was constructed to which all these policy briefs were sent.

- Cornell contributed to the financing of the Journées Africaines de la Statistique where INSTAT's output was exposed to media attention and users of analysis.

- Cornell financed the printing of the report for the presentation of the results of the new national household survey of INSTAT (500 copies).

4.2. *FOFIFA.* A working paper series has been started at the socio-economic unit of FOFIFA (DRD) in 2001. Four studies were published and two studies were at the printing stage in this series by the end of 2002.

4.3. *Regional outreach.* The Unité technique that was started in Mahajanga and Fianarantsoa in close collaboration with PACT and the provincial authorities helped to improve regional outreach and public policy debate in the regions. The QIP they worked on were, among others, the cotton sector in Mahajanga, the education problem in Mahajanga, the benefits of the railway in Fianarantsoa and conservation for water supply in Fianarantsoa (for more details, see report PACT).