FAST TRACK BRIEF

June 3, 2009

The IEG report "How Effective Have Poverty and Social Impact Analyses Been?" was discussed by CODE on June 3, 2009

How Effective Have Poverty and Social Impact Analyses Been?

- **The Poverty and Social Impact Analysis (PSIA) approach, introduced by the World Bank in FY02, aimed to help the Bank and its client countries anticipate and address the possible consequences of proposed policy reforms, especially on the poor and vulnerable, and to contribute to country capacity for policy analysis. According to the Bank, by FY07 it had undertaken 156 PSIAs in 75 countries and 14 sectors. Total Bank and other donor support to PSIAs over FY04-06 was $15 million.**

- **Development literature has emphasized the importance of understanding the institutional and political constraints to development, building domestic ownership of policy reforms, and assessing the distributional impacts of policy actions. The PSIA approach has correctly emphasized these aspects. The Bank has produced a substantial body of guidance on how to address these aspects, and that guidance has been refined over time to incorporate lessons learned.**

- **Implementation of the PSIA approach has, however, had considerable limitations. There have been tensions between the various operational objectives assigned to PSIAs. The tensions concern inconsistencies between informing country and Bank policy decisions in a timely way and building country analytic capacity. PSIAs have had limited ownership by Bank staff and managers and have often not been effectively integrated into country assistance programs. Quality assurance, monitoring, and evaluation of the overall effectiveness of PSIAs have been weak. While there have been some outstanding examples of success, PSIAs reviewed in this evaluation have, on average, had a moderate effect on country policies and Bank operations, and a negligible effect on country analytic capacity.**

- **To improve PSIA effectiveness, the evaluation recommends that the Bank take measures to ensure that staff fully understand what the PSIA approach is and when to use it, clarify the operational objectives of each PSIA, and ensure that the approach and timeline adopted are aligned with those objectives. Quality assurance mechanisms should be strengthened to ensure that PSIAs are designed to achieve the intended effects. The evaluation also recommends that the Bank shift significant decision-making and funding authority for PSIAs to the Regional Vice Presidencies and ensure that PSIAs are grounded in country assistance programs.**

Introduction

The development community first became concerned about the impacts of economic policy reforms on the poor during the structural adjustment period of the 1980s. Then and in the 1990s, external groups continuously criticized the IMF and World Bank for a failure to properly assess the impacts of the policy reforms they supported. In response, the Bank in FY02 introduced Poverty and Social Impact Analysis (PSIA). The Bank had been conducting distributional analysis in some of its economic and sector work even before this time. As early as 1987 the Bank's Operational Guidelines required analysis of the short-term impact of adjustment programs on the urban and rural poor. According to the revised Operational Policy (OP 8.60) on Development Policy Lending (DPL) issued in 2004, DPLs with likely and significant poverty and social consequences were required to summarize in their program documents relevant analytic knowledge of these consequences. But the Operational Policy does not mandate that the PSIA approach be used to undertake an assessment of these consequences.

Over FY02-07, the Bank supported 156 pieces of analytical work using one or more elements of the PSIA approach (hereafter called PSIAs), partly driven by the availability of earmarked funds both from within the Bank and from DFID, GTZ, Norway, Italy, Belgium, and Finland. The PSIAs were done mainly in the context of DPLs, but some also aimed to inform Country Assistance Strategies, investment loans, and analytical work.

What Is a PSIA?

The Bank defines PSIA as "analysis of the distributional impact of policy reforms on the well-being of different stakeholder groups, with particular focus on the poor and vulnerable."

The Bank sees the innovative aspects of the PSIA as "the application of the tools and techniques of social and economic analysis to analyze impacts of economy-wide policy reforms before those reforms are carried out (ex-ante analysis), and more systematic use of that analysis to inform policy advice and policy design."

The Bank has identified two key elements of PSIA: "First, an analysis to determine the distributional impacts, and second, a process that engages appropriate stakeholders in policy-making."

Source: "A User's Guide to Poverty and Social Impact Analysis," World Bank, 2003; "Poverty and Social Impact Analysis of Reforms: Lessons and Examples from Implementation," World Bank, 2006; "Good Practice Note: Using Poverty and Social Impact Analysis to Support Development Policy Operations," World Bank, 2008.

Evaluation Background

Although the Bank has submitted progress reports to donors regarding the implementation of PSIAs, it has not yet completed a comprehensive self-evaluation of the PSIA experience. This IEG evaluation, requested by the Bank's Board of Executive Directors, represents the first independent evaluation of the PSIA experience.

The PSIA experience is highly relevant today. The recent financial crisis and global slowdown are likely to put pressure on governments and donors to undertake far-reaching reforms in the medium term. In order to protect the poor and enhance benefits to them, key reforms will need to be underpinned by systematic analysis of their expected poverty and social impacts.

The Bank has envisaged several roles for PSIAs, mainly in the elaboration and implementation of poverty reduction strategies in developing countries, supporting in-country capacity building, and informing Bank operations. These roles can be distilled into three operational objectives that form the basis for the questions addressed in this evaluation:

1. What effect have PSIAs had on country policies (including policy debate)?
2. What contribution have PSIAs made to the development of country capacity for policy analysis?
3. What effect have PSIAs had on Bank operations (including strategy and analytical work)?

This evaluation covers analytical work identified as PSIAs by the Bank's Poverty Reduction and Economic Management (PREM) and Sustainable Development (SDN) Network Anchors. Analyses not identified as PSIAs by these Anchors are not covered.

The PREM/SDN Anchors identified 156 analyses as PSIAs over the FY02-07 period. This evaluation draws its findings from: a portfolio review of a statistically representative sample of 58 PSIAs out of the universe of 156 PSIAs; in-depth country case reviews of 12 PSIAs in eight countries with Regional, sectoral, and fiscal year coverage; and interviews with key informants. The latter include interviews with country stakeholders and Bank staff associated with an additional 11 PSIAs in 10 countries and interviews with senior Bank staff and managers.

Main Findings

Objectives. The portfolio review found that about one-fifth of the PSIAs have not explicitly identified which of the three operational objectives they intend to pursue. Among those that have identified operational objectives, informing country policies has been the most frequently stated, followed by informing Bank operations, and increasing country capacity for policy analysis. Most PSIAs have had more than one operational objective. About a third of the respondents to the task manager survey indicated that their PSIA pursued all three of the objectives.

Pursuit of the multiple operational objectives of PSIAs can create tension and raise unrealistic expectations of what a PSIA can achieve. For example, PSIAs seeking to inform government policy decisions must adjust to the timing of the decision process, but often that is inconsistent with the approach required to build country analytic capacity.

Content and Approach. PSIA practice has frequently departed from the initial guidance on how PSIAs should be conducted. The portfolio review shows the following:

- Even though PSIAs originated out of concern about the impact of reform programs, about one-third of the PSIAs in the portfolio review did not examine well-specified reforms but were more general sector or macroeconomic analyses.
- About one-third of the PSIAs explicitly identified beneficiaries or those adversely affected, and about half did not although they included disaggregated data or results.
- About 60 percent of the sampled PSIAs identified the institutions responsible for implementing the reform.
- Over half of the sampled PSIAs included some sort of stakeholder participation, but no consultations were mentioned for about two-fifths of the PSIAs.

PSIAs have had widely varying characteristics due in part to an unclear understanding of PSIAs among Bank staff. At the same time, analytical work possessing PSIA-like characteristics has not always been classified by the Bank as "PSIA." These errors of omission and commission are likely to have inhibited quality assurance and lesson learning.

Effect on Country Policies. Tracing links between PSIA analyses and country decisions is often difficult, especially where the PSIA is only one of many possible influences. PSIA effects may also be diffuse and lagged—a report may have no discernable impact on immediate action, yet may affect ideas and debate that shape future policy choices. This evaluation focuses only on near-term effects of PSIAs.

The PSIAs reviewed in this evaluation had a moderate effect on country policies, on average, although there have been some outstanding examples of success Informing a policy process is not easy and requires the convergence of a number of factors. These include the operational focus of the PSIA, a match between PSIA topic and country priorities, government ownership, engagement of parts of the government that have policy jurisdiction over the areas covered by the PSIA, engagement with appropriate nongovernmental stakeholders, timeliness in relation to country decision-making processes, sensitivity to the politics of reform, and active dissemination beyond the distribution of reports. One or a few of these factors have been present in most PSIAs, but the presence of a majority of these factors—which has occurred only in some PSIAs—is important for substantial effect.

Contribution to Country Capacity. The PSIAs reviewed suggest a negligible contribution to country analytic capacity, on average, with a few positive examples. The main reason for this finding is that most PSIAs have treated this objective as a byproduct rather than a core concern, and there has been a tension between the need to provide timely inputs to policy decisions and the longer-term sustained engagement needed to build capacity. Where capacity building has been an explicit objective it has not always been backed by an appropriate strategy to achieve it. Many PSIAs have involved local ministries, consulting firms, NGOs, academics, or local consultants, while others have held training workshops to transfer skills. However, the time allocated to either of these approaches has generally been insufficient to build lasting capacity for policy analysis. The few PSIAs reviewed that have successfully helped build capacity have taken a more deliberate approach. Given that in many—perhaps most—situations, the time frame and approach required for capacity building are inconsistent with the approach needed to inform timely government decision making, greater selectivity in operational objectives is desirable and more effective approaches to building country analytic capacity will also be needed.

Effect on Bank Operations. The PSIAs reviewed suggest a moderate effect on Bank operations, on average, with some outstanding examples of success. Key factors that have inhibited PSIA effect on Bank operations have included the ambiguity of the PSIA concept, insufficient country director buy-in resulting in lack of grounding of the PSIA in the country assistance program, and weak engagement between PSIA teams and other operational staff.

Interviews with senior Bank staff and managers indicate that the uptake of PSIAs by country directors and operational teams remains dependent on individual inclinations rather than reflecting established practice. There has been only modest acceptance so far of the PSIA as a robust practice across the Bank, although staff directly involved with PSIAs see a number of corporate benefits from the experience, notably the creation of an important body of knowledge through PSIA guidance and an appreciation of the importance of process issues in addition to analytics. However, operational staff interviewed lacked a common understanding about the objectives and processes of the PSIA approach. PREM staff generally tended to focus on economic analysis and SDN staff tended to emphasize mixed methods, including social and institutional analysis and a participatory process.

The 2008 PSIA Good Practice Note is an improvement over the 2004 PSIA Good Practice Note in that it helps to lighten PSIA guidance, which was previously seen by staff as overly demanding. The 2008 PSIA Good Practice Note provides Bank staff with the flexibility to determine, based on country context, the balance between economic, social, institutional, and political analysis (and between quantitative and qualitative techniques) and between analytics and such process issues as stakeholder participation and disclosure. But the 2008 PSIA Good Practice Note does not require staff to provide a rationale for the particular choices made. Providing a rationale is especially important to ensure that Bank staff from the different Networks do not continue to place undue emphasis on their respective disciplinary approaches in undertaking PSIAs.

The PSIA approach has correctly emphasized the importance of understanding the institutional and political constraints to development and the need to build domestic ownership of policy reforms in addition to assessing the distributional impact of policy actions. But implementation of the approach has had considerable limitations. Some notable successes have modeled what PSIAs can accomplish when done right. The recommendations below are intended to help improve PSIA implementation and realize its potential.

Recommendations

This evaluation makes four recommendations to strengthen the Bank's work using the PSIA approach, whether done as free-standing analysis or embedded in other analytical work.

❖ **Ensure that staff understand what the PSIA approach is and when to use it by providing clear guidance (perhaps through updating of the 2008 PSIA Good Practice Note) and actively disseminating this guidance particularly on:**

- Whether and how the PSIA approach differs from other distributional analyses, including whether the inclusion of the word "social" in Poverty and Social Impact Analysis suggests the need to include a different type of analysis;
- Whether or not PSIAs should be linked to specific reforms and identify beneficiaries and those adversely affected by the reform; and
- What criteria should be used to determine when the PSIA approach is appropriate for a particular operation in a country program.

❖ **Clarify the operational objectives of each PSIA with regard to its intended effect and tailor the approach to those objectives, ensuring that the concept note:**

- Contains a clear statement of the operational objectives of the PSIA with respect to the intended effect (not just the topics/issues to be analyzed);
- Indicates how its approach, in particular stakeholder engagement, team composition, partner institutions, budget, and time frame, has been tailored to meet the operational objectives, and provides the rationale for the choices made;
- Shows how any tensions and trade-offs among the operational objectives will be reconciled; and
- Discusses if the intended dissemination audience and strategy are consistent with the stated operational objectives.

❖ **Improve integration of the PSIA into the Bank's country assistance program by:**

- Shifting significant decision-making and funding authority to the Regional Vice Presidencies to ensure that the PSIA topics, scope, and approach are consistent with the country assistance program and that PSIAs ask policy-relevant questions; and
- Requiring that *all* earmarked funding for PSIAs be matched by a substantial contribution from the country unit budget.

❖ **Strengthen PSIA effectiveness through enhanced quality assurance, including:**

- Subjecting PSIAs to systematic review by regional management at concept and completion stages to ensure relevance and fit of the PSIA to the country assistance program, and consistency of the proposed approach with operational objectives, in addition to ensuring technical quality; and
- Ensuring that the Bank establishes a monitoring and self-evaluation system designed to assess if PSIAs are being undertaken where appropriate and are achieving their stated operational objectives.

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Contact IEG:

Director-General, Evaluation: Vinod Thomas
Directors: Cheryl Gray (IEG-WB)
Manager: Monika Huppi (IEGSE)
Task Manager: Soniya Carvalho (IEGSE)

Copies of the report are available at:
http://www.worldbank.org/ieg/psia
IEG Help Desk: (202) 458-4497
E-mail: ieg@worldbank.org