

Mainstreaming PSIA at the World Bank

Achievements and Challenges

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*Presentation to the TF ESSD annual meeting
Washington, November, 2007*

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&

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Poverty
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The World Bank





What PSIA Is

- PSIA addresses policy interventions' distributional impacts on the well-being of different social groups, with a particular focus on the poor and vulnerable
- PSIA analyzes:
 - Positive and negative impacts, and if possible long-term and short term effects
 - Income and non-income dimensions
 - Impacts on different socio-economic groups
- The analysis focuses on:
 - Stakeholders
 - Channels through which impacts are transmitted (macro-micro links)
 - Institutions affecting or affected by the reforms
 - Risks to the reform
- PSIA can be applied *ex ante* (upstream or downstream) or *ex post*; depending on the nature of the policy reform and the purpose of the PSIA



What PSIA can do

- Underpin policy reforms with empirical evidence;
- Identify political economy and implementation risks;
- Contribute to more inclusive and transparent in-country policy debate
- Enhance country ownership for the policy reform and its implementation;
- Potentially strengthen local analytical capacity



Some Examples

Example #1: Indonesia 2005

- *Reform intention:* Reduce fuel subsidy in light of rising oil prices
- *PSIA results/process:* Household survey analysis showed that this policy would have significant negative impacts on poor households. Simple excel spreadsheet on impact of oil price rises on the budget, inflation and poverty incidence helped the Bank respond iteratively to Cabinet's requests for information. Subsequently, Bank team worked closely with Government to develop a compensation scheme and with Cabinet on a communication strategy for the pricing reform
- *Policy reaction:* Sparked widespread public debate about the reform measures. The government established an Unconditional Cash Transfer program to offset fuel price increases for 15 million poor and near-poor families. This led to a \$10 billion saving from the budget, which was then re-allocated to new programs in 4 new anti-poverty programs



Examples cont'd

Example #2: Mozambique 2005

- *PSIA focus:* Finding the most pro-poor policy design to improve primary education.
- *PSIA results* outlined an appropriate balance of policies that reduced the schooling costs for poor households, while also ensuring adequate resources for the school system to accommodate additional students.
- *Policy Response:* The GoM adopted free primary education, but restructured the school funding mechanisms so that the revenues foregone from school fees were made up for through budgetary provisions



On-going PSIA examples

- Example # 3: Morocco Water Sector 2007
 - *Reform intention:* Reduce regressive structure of subsidies in the water sector
 - *PSIA results (phase 1):* the poor are willing to pay a considerable share of their budgets for water, but the key difficulty rests in the affordability of connections
 - *Policy reaction:* The government was initially hesitant about the need for distributional analysis, and about how to communicate with civil society. Initial across-the-board tariff increases sparked protests, leading to much greater engagement of the government with the second phase of PSIA analysis

- Example # 4: Tajikistan Energy Sector 2006-07
 - *Reform intention:* Restore the financial viability of the energy sector while keeping energy services affordable for the large percentage of poor population
 - *PSIA results:* considered four options for reforming the mix of tariffs and compensation mechanisms (different lifeline tariffs, cash transfers)
 - *Policy reaction:* PSIA results were useful in informing the dialogue with government on reform options: government is phasing in reform



Achievements in Mainstreaming PSIA

Within the Word Bank:

- Succeeded in anchoring PSIA in WB DPL operations by including it in OP 8.60, and good results in OPCS review on compliance to this new policy
- System in place to follow up on compliance and quality via internal quality assurance mechanisms (corporate reviews and QAG)
- Encouraging uptake of PSIA by Task Teams thanks to incremental BB fund and donor support via TF resources. Following completion of incremental BB fund period, PSIAs are funded within regular country work programs [around 150 PSIAs since 2002 in 75 countries]
- Knowledge resources developed and training provided to facilitate continuous capacity building and learning



Achievements in Mainstreaming PSIA (II)

- PSIA is adapting creatively to client needs; the premium is on delivering policy advice on poverty and social impacts in a **TIMELY** manner. There is also growing awareness that different reform types, demand different depth of analysis (e.g. fuel price increase vs decentralization reform)
- Some country teams in Africa schedule PSIA routinely (Kenya, Tanzania, Malawi, Rwanda)

At the country level:

- Good results on influencing policy using both upstream and downstream PSIA
- Contributes to changing public perception and to build consensus
- Increased awareness and understanding for PSIA in a number of countries



Challenges in Mainstreaming PSIA

Within the Word Bank:

- Tracking PSIA work is difficult (definitional, reporting structures)
- Mixed methods approach not yet routine. Most cases are either-or applications; likely to reflect time, skill and resource constraints
- Less than optimal dissemination and disclosure of results → can impede on the approach's effectiveness to inform policy in country

Challenges in moving towards country led PSIA:

- Building capacity, so that the question about distributional impacts is asked more routinely by national stakeholders
- Anchoring PSIA in national policy making processes (three pilots in Honduras, Tanzania and Malawi)



Addressing the challenges

- Up-dating the Good Practice Note on PSIA to provide better guidance to task teams on how to align PSIA better to policy demands
- Stocktaking exercise to get a better understanding on upcoming PSIA work
- Internal and external evaluation of PSIA's effectiveness scheduled for this FY (IEG report expected in mid 2009)
- Continue to work with the multi-layer approach: mainstreaming of PSIA in-house while fostering country led PSIA through capacity building and institutionalizing PSIA in government structures