



**Comments on**

**“A User’s Guide to Poverty and Social Impact Analysis”**  
**(Draft edition)**

**and Reports of PSIA Pilot Studies**

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## ***Introduction***

Catholic Relief Services is pleased to have an opportunity to comment on the draft version of the "User's Guide to Poverty and Social Analysis" and on the pilot studies being carried out by the World Bank and by DFID, which were summarized in public meetings on October 17.

While appreciating the difficulties inherent in measuring the potential micro-level impacts of macro-level economic policy changes, we believe that it is nonetheless essential to do so in order to gain assurance that such macro-level changes are making a positive contribution to the lives and well-being of poor and marginalized people, as the World Bank has long claimed to do.

After more than two decades of promoting macroeconomic and structural adjustment policy reforms, we welcome the fact that the World Bank and IMF are finally now developing the means to measure such impact. And, given the high and growing share of structural adjustment lending in total World Bank lending operations, it is all the more important to develop the capacity to assess the social and poverty consequences of policies promoted through such loans, and to employ these tools as a standard procedure in promoting economic reforms through loans and country assistance strategies.

World Bank internal studies have themselves acknowledged the lack of attention to social and environmental aspects of adjustment lending. As a 1999 World Bank desk review of structural adjustment and sectoral adjustment loans noted, "The majority of loans do not address poverty directly, the likely economic impact of proposed operations on the poor, or ways to mitigate negative effects of reform. Even where traditional subsidy and budgeting procedures are to be dismantled, the assumption is that poverty alleviation is to be achieved through improvements in macroeconomic stability and improvements in public administration, targeting, efficiency, etc. . . . Direct efforts to address short-term impact on the poorest are rarely considered."

Poverty and Social Impact Analysis (PSIA) is one important way to help fulfill a key claim of the PRSP – that poverty reduction will be the central goal of development policy and that policy choices (and by implication adjustment loan conditions) will therefore be subordinated to this larger goal. In fact, PSIA may be essential to the acceptance and success of the PRSP, if PRSP is to signal a different way of doing business not only by developing countries but also by the World Bank and IMF. As the UK Department of International Development notes, "The PRS process has raised expectations that macro and structural policies will be developed and designed in a way that is significantly different to ESAF and previous World Bank supported structural

reform programmes.”<sup>1</sup> This expectation is rapidly dimming as PRSPs advance economic reform policies that demonstrate little departure from the standard economic reform policies long promoted by the World Bank and IMF. As even the World Bank admits in its review of participation in PRSPs, civil society organizations “have typically influenced the . . . agenda on health, nutrition, education and widened the . . . understanding of poverty . . . [But] there is no case where [they] have successfully challenged and altered the development paradigm for their country.”<sup>2</sup>

### **Comments**

CRS feels better placed to comment on the objectives of Poverty and Social Impact Analysis, the ways it is employed, and by whom than on the methods for carrying out PSIA. Therefore, the comments below reflect less on the specific methodological approaches and tools outlined in the *User's Guide* or discussed in the pilot studies, than on the purpose of the PSIA and the rules that will guide its use at the World Bank and IMF. However, we observe that the *User's Guide* focuses primarily on approaches and methods and does not directly offer guidance to World Bank staff for when and how PSIA will be used. Therefore, some of these comments might pertain to other World Bank documents or processes that will set out rules governing the use of PSIA in World Bank operations, such as the new operational policy/best practice 8.6 for structural adjustment loans.

First, we would like to commend the Bank for the rich inquiry that appears to be accompanying the pilot studies, and for the selection of reforms that have been the subject of dispute. In particular, we were pleased to hear the following themes and issues highlighted in the review of the pilot studies on October 17, some of which are also echoed in the *User's Guide*:

- The recognition of the need to make explicit the logic and assumptions about how reforms are expected to achieve their goals.
- The acknowledgment that a sufficient array of PSIA tools and methods are already available, and that it is not necessary to postpone the adoption of PSIA in order to further develop methodologies.
- The importance of defining the research questions clearly and early in the process, in order to sharpen the analysis and inform policy decision-making.

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<sup>1</sup> DFID, “Piloting Social Impact Analysis of Stabilisation and Adjustment Programmes,” Terms of Reference, 2001

<sup>2</sup> “Participation in Interim Poverty Reduction Strategies: A Review,” Participation and Civic Engagement Group, The World Bank, January 2002, p. 32

- The emphasis in the pilot studies on a multidisciplinary approach, as well as an appropriate mix of qualitative and quantitative research methods.

However, CRS has five major concerns about the PSIA, as it is conceptualized and outlined in the *User's Guide* and as it appears to be implemented in some of the pilot studies.

1. **Public dialogue vs. technical discussion.** Our major interest in PSIA is its usefulness as an instrument to promote a well-informed public debate in countries over the direction of development policy and the goal of poverty reduction. In this respect, we have reservations that PSIA, as envisioned in the *User's Guide*, will be too technical and thus preclude its usefulness for broader public participation and discussion.

Furthermore, we also question whether a high degree of expertise to carry out PSIA might call for such an investment of resources and time as to inhibit its use. We believe that PSIA should be widely employed as a standard step in periodic long-term development planning processes and as well as in individual negotiations of policy-based loans. We hope that the World Bank errs in favor of approaches that will be easily used and accepted, without compromising an acceptable standard of analytical rigor.

In this vein, we were struck by the contrast in approaches between the DFID pilot study of fuel taxation in Mozambique, which researchers characterized as purposely "quick and dirty" in order to inform the real-time policy design process, and the World Bank pilot study of tariffs on water, sugar, and bauxite in Guyana. The DFID study also relied much more upon consultation with affected groups and community and was carried out over several weeks, while the World Bank study was a computer-generated modeling exercise that was conducted over more than six months. Nevertheless, the DFID study appeared to produce a strong and clear set of findings that had important implications for policy choices.

Although technical expertise in assessing impact of macroeconomic and structural policy might in some cases be necessary, we strongly urge that the PSIA process be designed in a way that it can be used to inform a larger democratic debate about the choice of development policy. This debate has as much to do with engagement of and negotiation among various stakeholders as it does with scientific analysis of evidence. Neither is genuine public discourse over policy reform a public relations exercise to promote acceptance of reform – as occasionally suggested in the *User's Guide*.

This implies that the *User's Guide* should place greater emphasis on the necessity of rapid, participatory approaches to inform the policy decision process, which often must be carried out under considerable time pressure, alongside the highly technical approaches that require advanced skills or training and are suited to longer-term policy planning processes. It also suggests adding more guidance about how to disseminate the findings as well as the process of PSI A in an accessible form and to use them to promote greater public discussion. While the *User's Guide* does discuss the importance of fostering policy debate (para. 92-94), it does not suggest specific ways to use PSI A for this purpose.

Finally, such a level of public discourse presumes that there must be full disclosure of information and documents about policy reforms prior to their adoption, including those under discussion between the World Bank and borrowing governments. It is obvious that the PSI A exercise will be highly constrained, if not entirely futile, in the absence of transparency about the nature of the reforms being considered. We encourage the World Bank and IMF will act to address this contradiction by ensuring that all information and documents related to proposed reforms are made fully public *in advance* of their adoption.

2. **Ownership: Who owns and conducts PSIA?** Without doubt, we support the principle of country ownership and capacity building for policy as well as assessing its poverty and social impact. Just as we have strongly urged that governments together with civil society acquire the capacity to formulate and implement poverty reduction strategies, so too do we urge that they acquire capacity to assess economic reform policies according to those strategies. At the same time, we are concerned about the repeated assertion in the *User's Guide* and in the discussion around the pilot studies that ownership and capacity for PSI A should rest chiefly at the country level. On the one hand, we fear that this might allow the World Bank or IMF to distance themselves from the findings or results of a PSI A that reflects poorly upon a policy reform that they have promoted. On the other hand, given the limitations on the borrowing governments to formulate and implement policy much less to assess its impact, combined with the highly technical nature of PSI A as proposed in the guide, any PSI A exercise could easily be dominated by the World Bank and its consultants. This could result in a situation where "ownership" exists in name only.

We believe that PSI A is as essential a learning process for the World Bank and IMF, which have long promoted a narrow set of economic policy reforms, as it is for the country carrying out the reforms. Shifting the burden and responsibility for PSI A onto the shoulders of borrowing governments only makes sense when the borrowing country truly enjoys the freedom to set its own policy

directions and the World Bank and IMF have relinquished power to influence the policy choices of borrowing governments. As long as the World Bank and IMF continue to promote certain policy choices, whether through advice, conditions or “selectivity” in lending, they must bear major responsibility for assessing their poverty and social impacts and for abiding by the results.

This leads us to two conclusions. First, PSI A must be carried out not only for country-wide planning processes led by the government such as the PRSP, but also for World Bank - and IMF-supported policy operations, such as individual adjustment loans. Second, the teams conducting PSI As should include World Bank or IMF staff, as well as members of the host country governments. In addition, they should also include civil society representatives as well as local experts from the country. Yet, since neither the World Bank and IMF nor governments nor civil society representatives are disinterested stakeholders, the teams should also include independent third parties from outside the country.

3. **Mitigation vs. informing policy design.** The *User's Guide* does initially emphasize that PSI A should “underpin the design and choice of policies” (para. 10) and lead to consideration of “alternative policy choices” (para. 10). Yet, in the more detailed discussion of the use of results of PSI A, it talks primarily in terms of mitigating the effects of policies through compensatory or complementary measures or perhaps a different sequence of the reform actions (para. 69-71). Indeed, the *User's Guide* outlines a 10-step process, in which design alteration and compensation comes only as step 7, and fostering policy debate and policy adjustment comes as step 10. The implication appears to be that the results of PSI A would be used, at best, to modify the predetermined policy or to offset its most adverse effects. Disappointingly, there is little encouragement to use the results to consider selection of an altogether different policy, or present a menu of policy options with clear presentation of trade-offs. Because we have a larger interest in creating space for developing countries to make their own policy choices according to their own interests and priorities, we believe that the *User's Guide* should go much further to ensure that PSI A will help promote greater flexibility in policy choices available to borrowing governments.
4. **Narrow conception of poverty.** The *User's Guide* refers to “multi-dimensional” nature of poverty and the need to “address both income and non-income dimensions of welfare” (para. 14). Nevertheless, it defines the impacts to be assessed primarily in terms of the economic dimensions of poverty. The five transmission channels outlined – employment, prices, access to markets and services, assets, and transfers and taxes – all concern economic welfare.

Although the document devotes modest attention to the role of institutions, including their transparency and public accountability, it does not fully explore the other non-economic factors of poverty which are highlighted in *World Development Report 2000* and *Voices of Poor*, e.g. social and institutional barriers to participation by marginalized groups, insecurity, and vulnerability to shocks or downturns, which might critically affect whether or not a reform will benefit the poor. For example, according to a report of an international fact-finding mission, privatization of a water in Ghana has not only led to a dramatic increase in the price of water, but it is associated with increase in domestic violence, as women were subjected to beatings and abuse for not having collected sufficient water.<sup>3</sup>

5. **Confronting opposition to economic reform.** One of the more disturbing features of the *User's Guide* is its discussion of stakeholders who might stand in opposition to reforms. For example, Box 2 (page 14) suggests ways to size up those who would potentially oppose or resist a reform, rather than how to understand and address their legitimate interests. Elsewhere, the document cites examples of business, trade unions and public sector interests that can derail a reform (para. 16) and refers to a potential risk to reform in terms of interest groups that might block a reform (para. 75). The underlying assumption appears to be that any group that stands in the way of reform is a recalcitrant obstacle to progress, and should be brought into line or neutralized, rather than negotiated with. Again, we believe that PSI A should serve as an instrument for promoting a larger democratic debate over the direction of policy reforms, not as an instrument to expose "enemies" of reform, or to justify or promote a predetermined reform.

### ***Recommendations***

Based upon the foregoing commentary, we recommend that the World Bank and IMF move forward as quickly as possible to mainstream the use of PSI A in their operations. We recognize that PSI A will demand substantial resources as well as a high level of institutional learning and commitment. However, such an investment is necessary both to ensure the effectiveness of World Bank and IMF operations in achieving their stated goal of poverty reduction and to restore the credibility of the World Bank and IMF in the face of growing disillusionment about the gap between their rhetoric and their practice.

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<sup>3</sup> *Report of the International Fact-Finding Mission on Water Sector Reform in Ghana*, Southern Links, August 2002.

Therefore, we recommend that the World Bank and IMF adopt the following formal rules and procedures governing the use of PSI A in their own operations:

- PSI A should be systematically carried out at two levels: at the level of country-level plans such as (CAS and PRSP) and at the level of individual policy-based loan.
- PSI A should be made mandatory for all World Bank and IMF policy-based loans. Furthermore, in guidance to staff, it must be clear that the results of the assessment must be fed back into the policy choices and design.
- Impact assessments should be carried out by mixed teams of researchers, including representatives from World Bank and/or IMF, government, civil society organizations and independent parties. Substantial investments should be made to strengthen the capacity not only of borrowing governments to carry out impact assessment, but also of academic, research, and civil society organizations in borrowing countries.
- PSI A-related documents should be fully disclosed and the process should be entirely transparent. Furthermore, there should be full disclosure of information and documents related to economic reforms and structural adjustment under negotiation between the World Bank and IMF and borrowing countries, including both *draft and final* Letters of Development Policy, President's Report or Program Document, Memorandum of the President, Letter of Intent, and PRSC, PRGF and other structural and sectoral adjustment loans documents.

With regard to the *User's Guide*, we recommend that the final draft incorporate the following revisions:

- Give higher priority to consultative and participatory approaches to PSI A that involve affected groups and communities, and to rapid approaches that may more closely approximate the timetable for policy formulation.
- Give greater attention to how to translate the often technical exercise of PSI A into more transparent and easily accessible forms to a wide range of stakeholders, in order to encourage a broad public debate in the country about economic reform choices.
- Place greater emphasis on using the results of PSI A to generate alternative policy options, with indication of the trade-offs inherent in the policy choices.

- Expand the methodology to examine of the non-economic dimensions of poverty that might be affected by a given policy choice.