



**Assessing the use of Poverty and Social Impact Analysis in World Bank
Development Policy Loans**

**Poverty Reduction and Economic Management
The World Bank**

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Abbreviations

AAA	Analytical and Advisory Assistance
AFR	Africa Region (WB regional department)
CEM	Country Economic Memorandum
CMU	Country Management Unit
DPL	Development Policy Loan
EAP	East Asia Pacific (WB regional department)
ECA	Europe and Central Asia (WB regional department)
ESW	Economic and Sector Work
FY	Fiscal Year
GPN	Good Practice Note
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
LCR	Latin America and Caribbean (WB regional department)
MENA	Middle East and North Africa (WB regional department)
OC	Operations Committee
OP	Operational Policy
OPCS	Operations Policy and Country Services
PA	Poverty Assessment
PER	Public Expenditure Review
PRMPR	Poverty Reduction and Economic Management – Poverty Reduction Group
PRSC	Poverty Reduction Support Credit
PSIA	Poverty and Social Impact Analysis
QAG	Quality Assurance Group
ROC	Regional Operations Committee
SAR	Southeast Asia (WB regional department)
SDV	Social Development
SOE	State Owned Enterprise
TTL	Task Team Leader
UNDP	United Nations Development Programme

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Key messages

- Poverty and social impact analysis has been mainstreamed in World Bank operations by making it part of the operational policy covering Development Policy Operations.
- The 33 formal PSIA reports carried out on an average year are significantly more compared to other Bank analytical products (e.g. PER/CEM).
- PSIA type work has proved critical in shaping policies (e.g. Morocco water DPL, Indonesia severance pay) in several countries.
- A review of a sample of prior actions suggests that around 90% are distributionally-neutral, with around 6% risk having adverse distributional implications and around 4% having explicitly positive distributional implications.
- Of the sub-set of policy actions with possible adverse distributional implications, around 51% have relevant PSIA type analysis underpinning them.
- Constraints to even greater use of distributional analysis include funding, difficulty in finding staff with appropriate skills, time constraints when preparing DPLs and uneven management attention at DPL reviews.
- The Bank is in the process of committing more financial and human resources for distributional analysis from a likely new PSIA trust fund.
- Discussions at the regional and senior management level will be required on how to strengthen the focus on distributional analysis during DPL reviews and planning for analytical work.
- PREM and SDV will ramp up knowledge sharing and capacity building activities focusing on sharing tools and experiences of ‘just in time’ distributional analysis as well as other PSIA approaches.

1.0 Introduction

Since 2002, the World Bank has sought to strengthen the evidence base for policies aimed at poverty reduction by promoting a systematic understanding of the poverty and social impact of reforms. This approach which included the development and dissemination of a range of analytical tools was formally labeled ‘Poverty and Social Impact Analysis’ or PSIA. To date, a substantial number of reports have been completed with this aim in mind, assessing policy issues that range from tariff changes for electricity and water, land reforms, changes in labor legislation, and natural resource management. The ultimate goal of undertaking such analyses is to enhance and improve policy formulation in client countries, help mitigate any social cost of reforms on the poor/vulnerable, and strengthen their positive impact on poverty alleviation.

As part of this broad objective PSIA aims to influence World Bank’s Development Policy Operations (DPOs). Development Policy Lending is an umbrella term covering PRSCs, other multi-sector budget support, and operations aiming to support policy reforms in a

given country. The World Bank's Operational Policy on Development Policy Lending adopted in August 2004, OP 8.60 (see Box 1) stipulates that the DPL Program Documents should reflect existing knowledge from analysis of potentially adverse effects and corresponding mitigating measures of specific reforms. Where analytical work is missing or accompanying mitigating measures may be insufficient, Program Documents should lay out how this gap will be addressed.

This report seeks to understand the extent to which poverty and social impact analysis has been carried out when appropriate to support World Bank Development Policy Lending (DPL). The review is intended as a note for Bank management and staff. It is timed so that the areas for improvement outlined in the document can be taken into account prior to the launch of a large new PSIA Trust Fund anticipated in mid 2009. The review (a) assesses the links between PSIA, and the policy advice and conditionalities covered in DPLs that may have negative poverty and social impact (as intended by OP 8.60 – see Box 1); (b) explores the challenges faced in strengthening these links; and (c) offers recommendations on how best to move forward and address identified weaknesses. It is important to recognize that this is a partial review with limited objectives – poverty and social impact analysis of policy change can be examined in a variety of other contexts, such as investment lending, or building of country capacity. The current stocktaking can be seen as the first of a two-part exercise that will provide a more comprehensive picture once completed – with this report focusing on the links with and impacts of PSIA within the World Bank and an upcoming ODI/SDV exercise looking at country level impacts.

2.0 PSIA and World Bank policy lending in more detail

2.1 The evolution of PSIA

The impetus for poverty and social impact analysis emerged in the late 1990s against a backdrop of concern over the potentially negative impacts of some structural adjustment policies on the poor. Together with several other interested donors (especially DfID and GTZ), the World Bank began to synthesize, and where appropriate refine, tools for such analysis starting in 2001 and provided funding for an initial set of country-led PSIA pilots.

The 'tool development' work aimed to systematize existing approaches for analyzing poverty and social impacts, and in doing so, promote more frequent applications of such analysis. Considerable methodological work was undertaken resulting in a *Toolkit for Evaluating Distributional and Poverty Impact* (Bourguignon and Pereira da Silva 2003) and a *User's Guide to PSIA* (World Bank 2003). This period also saw the production of further guides, particularly with regard to distributional analysis in various sectors (Coudouel and Paternostro 2005 vols. 1 and 2; TIPS Sourcebook 2005, revised 2007) and a report on best-practice PSIA methods (Coudouel et al. 2006).

Between 2001 and 2003, a number of country-level PSIAs were undertaken by the World Bank and other donors on a pilot basis. This was followed by an effort to mainstream the use of poverty and social analysis, starting with the August 2004 adoption of a revised version of OP 8.60. The Bank's operational policy aimed to ensure that specific country policies supported by a DPO with likely significant poverty and social consequences would

be underpinned by the analysis of the effects, including of the borrowers' systems for reducing adverse effects and enhancing positive effects (see Box 1 below).

BOX 1: POVERTY AND SOCIAL IMPACTS ACCORDING TO OP 8.60 (08/04)

10. *Poverty and Social Impacts.* The Bank determines whether specific country policies supported by the operation are likely to have significant poverty and social consequences, especially on poor people and vulnerable groups. For country policies with likely significant effects, the Bank summarizes in the Program Document relevant analytic knowledge of these effects and of the borrower's systems for reducing adverse effects and enhancing positive effects associated with the specific policies being supported. If there are significant gaps in the analysis or shortcomings in the borrower's systems, the Bank describes in the Program Document how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.

The rolling out of PSIA was financially supported through an incremental fund and several trust fund sources.¹ Institutionally, the PSIA approach is jointly promoted by the Poverty Reduction and Economic Management (PREM) and Sustainable Development (SDN) networks through their poverty (PRMPP) and social development (SDV) units respectively. OPCS oversees the compliance of DPLs with respect to OP 8.60. TTLs for PSIA work have come mainly from the three networks PREM, SDN, and Human Development (HDN), with occasional involvement from the financial and private sector development group (FPD).

2.2 PSIA as an 'approach' rather than a product

PSIA is an approach to assessing and evaluating potential poverty and social impacts, and is not identified with a single, uniform PSIA 'product'. The outputs of poverty and social impact analysis can range from brief "just in time" notes to an in-depth research report. PSIA outputs vary in terms of being desk-based versus primary data collection efforts, in terms of being more quantitative versus more qualitative, and in terms of whether they cover political economy dimensions. PSIA products can be stand-alone or feed into other core Bank products – such as core Economic and Sector Work (ESW) reports like Public Expenditure Reviews (PER), Poverty Assessments or Country Economic Memorandums (CEM) – or into a broader policy dialogue.

Moreover, poverty and distributional analysis can be applied to a wide range of policy reforms. These include reforms like SOE privatization and utility tariff increases that can have potentially significant adverse poverty and social impacts; or reforms whose impacts are less obvious or mixed, such as establishing formal land registration or decentralizing government functions.

¹ A special incremental fund was created in the last quarter of FY2003, and ran until the end of FY2006. The total allocation for PSIA work through this fund was \$5.6 million. Other funding has been provided through: a DfID TF financing 6 pilot PSIA in 2002 and several PSIA in LAC in FY2005-07; a Norwegian TF (TF ESSD) funding 11 PSIA in FY2002-4; a German Poverty and Social Analysis Fund (GPSAF) – providing approximately \$3.7 million from 9/04 to 3/09 with a focus on knowledge-sharing and country-led PSIA work and capacity building; and a Belgian TF managed jointly with UNDP running from 2005 to 12/08 with approximately \$4 million.

The lack of uniform definition of PSIA products poses a challenge in gathering information on the amount of PSIA work carried out in recent years. Moreover, since PSIA are not designated as a specific ESW product, they are not formally tracked in the Bank's recording (SAP) system. To address this identification problem, this study has adopted a two-pronged approach in the analysis described in section 4: (i) using the database of 'self-defined' PSIA funded by the central fund, along with the updated 2007/08 assessment from regional staff, to get a count of formal PSIA conducted by the Bank in recent years; and (ii) reviewing DPL Program Documents to assess the references to any form of distributional analysis, irrespective of whether formally labeled as PSIA, or done by the World Bank.

3. Methodological approach and scope of work

This report seeks to answer two key questions:

- Do DPL Program Documents refer to relevant poverty and social impact analysis where necessary and to what extent do PSIA influence the design of DPLs?
- What incentives and challenges exist to having DPLs informed by such work?

It should be noted that the scope of this report does not extend to the following issues, to be addressed in a follow-up study led by SDV and an upcoming comprehensive evaluation by IEG:

- An assessment of the quality of PSIA work
- The impact of PSIA on client country policies

The review draws on two main sources:

(i) A review and update of a database tracking PSIA funded centrally; a review of other relevant databases (such as the OPCS 'conditionality database') and DPL Program Documents. The existing database of PSIA reports funded centrally was updated for the purposes of this study with information for 2007 using information collected from regional staff.

Separate from the above exercise, a more in-depth review was conducted on 56 out of 107 Program Documents from FY2006-7 (see Annex 1 for a complete list of DPLs reviewed). The sample was stratified to reflect regional diversity, differences between multi and single sector DPLs and between programmatic and one-shot DPLs. The Program Documents were used to identify policy reforms supported by DPLs that are considered likely to have significant negative poverty and social impacts on poor or vulnerable groups.

(ii) Structured discussions with Bank staff involved with the PSIA agenda, including interviews with over 20 Task Team Leaders (TTLs) of DPLs on their experience with distributional analysis and its application. Interviews were conducted with Bank staff engaged in conducting, using or monitoring poverty, social and/or distributional analysis to collect their views on the successes and challenges of this type of analysis. Interviewees

included DPL TTLs,² TTLs of relevant analytical work, former anchor staff supporting poverty and social analysis, and selected other operational staff (regional and OPCS).

4. Key findings

This section lays out the findings of the stocktaking exercise, organized by the three key questions listed at the end of section 3. Section 4.1 reviews the number of PSIA's which were carried out since 2002. Section 4.2 illustrates the number of DPL documents which refer to PSIA's comparing them with prior actions which are likely to have significant poverty and social consequences. Section 4.3 examines the extent to which PSIA's appear to have influenced DPLs, both by reviewing loan documentation and discussing with relevant task team leaders. Section 4.4 examines the incentives and challenges to DPLs being informed and influenced by such work, including obstacles in PSIA dissemination and a lack of adequate resources and demand.

4.1 Number of PSIA's

The tally of PSIA is derived from a database of 'centrally-financed' PSIA work undertaken between FY2002-07, updated for 2007/08 to include work identified by regional staff as addressing distributional issues. More informal studies, often integrated into other pieces of work are not included. Hence, if anything this stocktaking underestimates the extent of PSIA-type analysis carried out in the Bank during the study period.

The database shows that 195 PSIA's were undertaken or initiated between 2002 and 2008, with an average of 33 studies carried out per year. These numbers indicate that there are typically more PSIA's carried out every year than Country Economic Memorandums or Public Expenditure Reviews (Table 1), though PSIA's are typically significantly leaner than these reports. The largest number of PSIA's has been carried out in Africa, followed by Europe and Central Asia, East Asia Pacific, and Latin America (Table 2).

	2002	2003	2004	2005	2006	2007	2008	Total
# of Poverty and Social Impact Analyses	13	18	39	40	37	21	27	195
# of Country Economic Memorandums	9	18	15	18	17	6	10	93
# of Public Expenditure Reviews	25	21	28	22	19	25	24	164
<i>Note:</i> Fiscal year when work was initiated								

² Interviews were conducted with the TTLs of 12 of the 56 DPLs (from FY2006-07) that were reviewed in-depth, as well as with the TTLs of 10 more DPLs for other years (see Annex 1 for a full list).

TABLE 2. TOTAL NO. OF PSIAs UNDERTAKEN OR INITIATED FY2002-8 BY REGION		
	PSIAs per region	Region as % of Total
Africa Region	74	38%
East Asia Pacific	32	16%
E. Europe and C. Asia	34	17%
Lat. Am. and Caribbean	31	16%
South Asia Region	14	7%
M. East and N. Africa	10	5%

The findings show that the Bank remains actively engaged in assessing the poverty impact of policy changes it supports. Moreover, a significant share of such analysis takes place in Africa, the region which arguably faces the most significant capacity constraints in carrying out country-led distributional analysis.

4.2. References to distributional analyses in DPL documentation

In order to identify specific Prior Actions with likely significant poverty and social impacts³ we take a sample of 56 (out of the total of 107) DPLs approved in FY2006/07. These had a combined total of 652 Prior Actions, which were reviewed in depth. Each reform was assessed according to likely distributional impacts – these vary within each sector so that for instance in the utility sectors the clearance of arrears across ministries was not considered distributionally sensitive while raising tariffs was. All 652 prior actions were classified into three categories: (i) distribution neutral, (ii) potentially positive distributional impacts, and (iii) potentially adverse distributional impacts. There is no definitive criterion for classifying conditions likely to have significant poverty and social impact, which means that the classification must rely to some degree on subjective judgment.

Bank conditionality has undergone significant evolution in recent years, with conditionality related to public sector reforms growing and conditionality focused on ‘trade and economic management’ and on ‘financial and private sector development’ showing a notable decline (WB/OPCS 2007). Given such shifts in emphasis, the extent to which Bank conditionality still focuses on reforms that have potentially significant poverty and social impact remains a subject of debate among external stakeholders (Eurodad 2007; Bull et al. 2007; Booth et al. 2008). The evolution of conditionality and the surrounding debate have obvious implications for the frequency and areas of PSIA to be carried out in the context of policy lending. In other words, if the incidence of DPL conditionalities with potential poverty and social impact has declined, one would expect the use of and need for PSIA to decline as well.

A first major finding of this analysis is that, in line with earlier studies, around 6% of Prior Actions analyzed as part of the sample of 652 prior actions from 56 DPLs are considered likely to have adverse poverty and social impact (see table 3 and also WB/OPCS 2006: 62). Around 4% will have an explicitly positive distributional impact (i.e. improve the welfare of the poor relative to the non-poor.) Examples of this type of prior actions include strengthening a targeted program for schoolgirls in Benin (PRSC 3, 2007) and increased funding for food support and the rolling out of a pilot for conditional cash transfers to poor

³ See Annex 1 for the list of DPLs in the sample.

households in Pakistan (PRSC 2, 2007). Most of the prior actions appear to have uniform benefits to all groups of the population particularly since a large share of prior actions relates to improvements in financial management and administrative efficiency measures. Examples of such prior actions include: (i) an agreement on an action plan for enhancing transparency and compliance with accepted standards for management of public funds in Egypt (Financial Sector DPL, 2006) and (ii) the issue of action plans for the simplification and greater transparency of administrative procedures in Vietnam (PRSC 5, 2006).

TABLE 3. DPL PDs AND PRIORS WITH RELEVANT DISTRIBUTIONAL ANALYSIS FROM IN-DEPTH REVIEW		
	DPLs	Prior Actions
Total in in-depth review	56	652
Total with distributionally sensitive effects	41	70
% with distributionally sensitive effects / Total reviewed [‡]	73.2%	10.7%
Total with potentially adverse distributional effects	29	41
% with potentially adverse distributional effects / Total reviewed	51.8%	6.3%
% potentially positive distributional effects / Total reviewed	37.5%	4.4%
Total with potentially adverse distributional effects with PSIAs	18	21
% with potentially adverse distributional effects with PSIAs / Total with potentially adverse distributional effects*	62.1%	51.22%
<i>Notes:</i> [‡] A number of DPLs had priors with both potentially adverse and potentially positive distributional effects; *This does not include 3 PSIA-type items that were undertaken but not referred to in the corresponding DPL Program Document; if they were included, this percentage would rise to 58.5%.		

Of this small subset of prior actions which have potentially adverse impacts, Table 5 illustrates that around half (51%) are underpinned by some form of social and distributional analysis. There are variations across themes – more distributional analysis appears to be carried out for utility tariff increases than for areas such as land reform. Among the remaining 51% of prior actions for which the DPL program documents do not refer to social and distributional analysis explicitly, there are some instances where distributional analysis (in pre-existing ESW products) played a role in informing the prior actions.⁴ These findings suggest that PSIA-type analysis is carried out in many cases, but is not yet consistently integrated in all DPLs. Figure 1 breaks down prior actions with potentially adverse distributional effects by region. The patterns are merely indicative as the regional breakdown reduces sample sizes significantly.

⁴ For example, in PRSC-3 for Benin, the program document does not refer explicitly to social and distributional analysis for a prior action related to development of public-private partnerships in the water system. However, a Public Expenditure Review conducted in 2004 contained some distributional analysis for the water sector that was relevant for the reform, and influenced the subsequent dialogue in the water sector.

There are clearly important caveats to these findings. *Firstly*, the subjective judgment involved in identifying which Prior Actions have poverty and social impact can be questioned. The true impact can only be determined by a range of country- and context-specific factors that may not be fully discernible from the text of the Program Documents. In some cases, for example, adequate mitigating measures may be already in place or the reform itself may not have been as high-impact as suggested by the text. *Secondly*, the numbers may underestimate the impact of distributional (or PSIA-type) analysis on reform design. This is because certain types of impacts – such as the re-designing or dropping of certain reforms because of potential severe impacts – may not be mentioned in the Program Document,

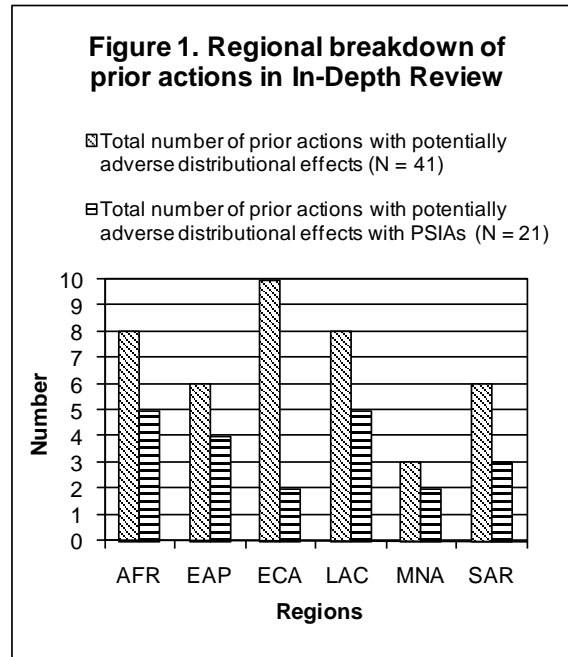
especially when these are earlier events occurring over a period of time. Third, there are certain reforms which are easier to analyze from the methodological stand-point (e.g. the distributional impact of utility price changes) relative to others (e.g. the distributional impact of making labor laws from flexible, or the impact of lowering average tariffs).

The next section complements the earlier analysis with an assessment of the extent poverty and social impact analysis influences DPOs using a qualitative review of Program Documents and interviews with DPL teams.

4.3 PSIAs and the extent of influence on DPLs

Interviews with Task Team Leaders (TTLs) of DPLs and PSIAs reveal a mixed story on how PSIAs have influenced the design of DPLs. On the one hand, there are a number of strong cases where the PSIA process has informed policy dialogue and helped implement difficult reforms by enhancing the government’s communication and mitigation measures. For example, in the case of the Mexican water sector DPL, PSIA analysis played an important role in generating a dialogue between different stakeholders and government departments. In Indonesia, policy analysis and dialogue in 2007 centered on the distributional impacts of a proposed reform to severance pay illustrated how the proposed policy choice would have made the poorest category of workers – unskilled manual laborers – worse off. This analysis contributed to the government re-thinking the proposed reforms and putting them on hold until better data and analysis of potential impacts could be done.

In some cases, TTLs felt that PSIA work had been useful in confirming existing assumptions and strengthening the case for certain policies, as with civil service reform in Honduras and rural transport in Madagascar. In Mozambique, PSIA work served to build agreement between the government and donors over policy options in the education sector. Initial



PSIA analysis in the Moroccan water sector helped the Government of Morocco to react appropriately when a change in utility prices resulted in significant public protest (see Box 2).

BOX 2: MOROCCO - IMPACT OF PSIA ON WATER SECTOR DEVELOPMENT POLICY LOAN

MARCH 2007

This DPL, focused on the Morocco water sector, had four main objectives: (i) improving sector governance; (ii) completing and enacting integrated water resources management reform; (iii) improving service, ensuring asset sustainability, and raising use efficiency in irrigation; and (iv) improving access to water supply and sanitation and wastewater treatment capacity.

Phase I consisted primarily of a desk review on the impact of tariff adjustment on users' capacity to pay, on operators' costs and cash flow, and the need and constraints for expanding connections to water supply and wastewater services. While these all fed into the design of the DPL, the most important result that was carried through to the prior actions was the stated need for further and ongoing monitoring and evaluation of the impact of tariffs changes and concurrent capacity building for relevant agencies to do so.

The Government was not initially particularly interested in the PSIA on water tariffs, particularly at the prospect of the DPL being slowed due to the PSIA process. However, after massive protests over proposed water tariff increases in Morocco's major cities, the Government decided the PSIA would be a useful tool to utilize and is highly supportive of further work which is now being carried out.

On the other hand, a number of DPL Task Team Leaders are unclear about how distributional analysis influenced their operations, even in cases where such work was referenced in Program Documents. Some of these DPL TTLs were also unaware of the various methodological tools and products developed by the PREM and SDV anchors including the Good Practice Note (GPN) for PSIA.

The review of Program Documents confirms the finding from a 2006 DPL Retrospective that the great majority of Program Documents contain a section on 'poverty and social impacts' as stipulated by OP 8.60.⁵ In numerous cases, however, the 'poverty and social impacts' section is quite broad and does not always systematically discuss whether supported reforms are likely to have poverty and social impact and merit PSIA (or not), whether relevant analytical work already exists and what are the gaps in existing knowledge, or what measures are in place to mitigate any adverse impacts of reforms (see also similar findings from the 2008 QAG review – WB/QAG 2008: 134).⁶ In this sense, and despite progress, there is clearly still a need for greater guidance to teams. In a few best-practice Program Documents key findings from a PSIA or other distributional analysis are summarized in an annex or as a textbox.

⁵ Most Program Documents that refer to distributional analysis generally do so in this section rather than, for example, in the section on 'analytic underpinnings' that mostly refers to formal ESW.

⁶ A particular challenge in discussing mitigating measures in Program Documents is that DPL teams frequently lack influence over such measures (that are dependent on the client government's decisions) unless they are explicitly included in Prior Actions. Indonesia is the most prominent case of a mitigating measure closely and specifically linked to a policy reform supported by a DPL in that a social safety net was created to compensate for a reduction in fuel subsidies.

4.4 Incentives and challenges to using PSIA for DPLs

Task team leaders outlined a range of issues which constrain the more systematic use of poverty and social analysis in DPLs. This section elaborates these constraints.

PSIA funding. A number of DPL task teams reported potential costs of large-scale PSIA as a significant disincentive to undertake them. During FY2002-6, central funding was available to undertake PSIA work. PSIA work undertaken during FY2002-6 generally cost \$120,000-\$150,000 per PSIA. Beginning in FY2007, PSIA was financed as part of regular Bank budget available to country teams. Information from TTL interviews suggests the costs range considerably in more recent years, with each PSIA costing anywhere from \$25,000 to \$100,000. Low-cost PSIA are usually based on already available data as the gathering of primary data and analysis of more complex issues requires more substantial funds.

An obvious source of funding for a PSIA produced specifically to inform a DPL – rather than to inform another WB operation or as a part of a larger ESW (and referenced in the DPL) – is the loan preparation budget. DPL preparation budgets typically range from \$80,000 to \$250,000. They are typically not calculated to include distributional analysis and can at best finance basic analyses of poverty and social impacts of certain types of reform (most commonly, quantitative analysis using pre-existing sources of data if these are available). Three alternative sources of funding have also been tapped: additional Bank budgets allocated by country teams, remaining trust fund resources (such as the UNDP and Belgian trust funds) and bilateral donors operating in the country. Overall task team leaders expressed a need for quick access to central/regional funds for ‘just in time analysis.’ Longer term work could be integrated into country team ESW planning.

Staff awareness and capacity. Awareness of the potential of poverty and social analysis to guide policy lending and how to initiate the process in the context of DPLs remains a constraint in the Bank. Many TTLs were unfamiliar with an existing Good Practice Note providing guidance on PSIA best practice. Lack of staff with adequate skills in the regions is another important constraint. Interviews revealed several instances where a planned analysis could not proceed due to unavailability of staff with relevant skills. Incentives to undertake poverty and social analysis may, therefore, improve if staff capacity and skills to carry out the analysis is strengthened.

PSIA depth and time available. In-depth poverty and social analysis often takes between 12-18 months while DPLs typically take between 6-12 months to prepare. This difference in timing, or at least the perception of a long analytical process, can deter DPL task leaders from investing in this work, especially in areas where the methodology for doing such work is complex. However time constraints are a function almost entirely of the policy reform under analysis. Distributional and social analysis on the removal of fuel subsidies in the face of rapidly rising prices and fiscal pressures is likely to require rapid turnaround, while the liberalization of a labor law or land reform provides greater time for analysis. Quick turnaround PSIA are often popular with clients as counterparts are able to feed them into ‘just in time’ policy making.

PSIA planning and selection. Determining whether a Prior Action is likely to have a possible negative poverty and social impact is not done in a systematic manner. Removing

fuel subsidies, for example, is typically expected to have a distributional impact and given the analysis can be done relatively swiftly this type of work is often done. The poverty and social implications of reforming the governance of natural resources such as mineral wealth or forests, on the other hand, are less obvious but may be significant. The latter are typically not selected for analysis partly due to their less obvious distributional implications but also due to the costs and time investment required for this. More fundamentally, there is no systematic process within the Bank to decide which policies require some form of distributional analysis. These are covered in an ad hoc manner during concept review discussions and rarely do country or sector directors convene strategic discussions on what type of distributional analysis to invest in.

BOX 3: PROGRAMMATIC PSIA OF TAX REFORM IN URUGUAY

The PSIA of the Uruguay tax reform assesses the potential poverty and equity impact of the reform, which came into effect in July 2008 and was supported by the first Programmatic Reform Implementation Development Policy Loan (PRIDPL I). The study (completed in May 2008) is a part of a programmatic activity; a follow-up study is planned – as requested by the Government – to analyze the impact of the reform when post-reform data becomes available. The programmatic approach of the PSIA is consistent with the objectives of the ESW program laid out in the FY2005-2010 CAS for Uruguay. The CAS notes the importance of PSIA in the context of key reforms supported by DPLs and aims to mainstream PSIA as a part of the ESW program through a programmatic approach. The PSIA was in progress when PRIDPL-I was approved by the Board, and its results provide some of the analytical underpinnings for PRIDPL-II that is under preparation.

The reform of the tax structure involved reducing the reliance on indirect taxes and introducing a dual personal income tax, which taxes labor income at progressive rates and capital income at lower, proportional rates. The pre-reform system had relied strongly on consumption taxes and derived direct taxes almost exclusively from labor income and pensions. The PSIA employed a micro-simulation model on household survey data to measure the potential impact of the reform on household income, poverty and inequality. One of the key findings is that the combined impact of the tax reform is progressive – a reduction in the tax burden for the bottom 80 percent of income earners and an increase for the top 20 percent. There is also a small reduction in income inequality and the poverty rate, compared to the pre-reform tax regime. The follow-up study using post-reform data will explore the modifications in individuals' behavior in response to changes in the tax structure.

An earlier review (World Bank/OPCS 2006) suggested moving poverty and distributional analytical work upstream in the DPL proposal process; identifying poverty and social analytical needs to underpin the policy dialogue in the CASs and overall ESW planning may well encourage greater application and influence of such type of analysis. The Uruguay CAS (2005-2010) is a good example of upfront planning of PSIA work – a recently completed tax reform analysis was part of this programmatic agenda (see Box 3).

Another benefit to moving PSIA work upstream would be to encourage the inclusion of relevant questions in household surveys – for example, on issues like utility expenditures, public transport, and land ownership, which are common topics for distributional analysis in many countries. With better data availability, initial quantitative analysis could be carried out

more quickly and at a lower cost when needed, and improved awareness of distributional issues can be built among national statistical agencies.

Corporate comments on PSIA. The timing of corporate comments on PSIA issues in the DPL preparation process also influences the emphasis given to PSIA by task teams. Comments typically tend to arrive prior to a Regional Operations Committee, or Operations Committee, meeting when the preparation phase is at its latter stages. It would more helpful for the DPL teams, however, if the need for additional distributional analysis were clarified relatively early in the preparation of a loan, such as the concept paper review so that there is sufficient time for the analysis.

Client interest (or lack of) in PSIA. Along with demand-side challenges within the Bank, there is considerable variation in client country demand for PSIA work. Country demand and engagement with PSIA, especially when linked to Poverty Reduction Strategy Papers, can strengthen the use and influence of PSIA. In countries like Nicaragua, links between PRSPs and PSIAs have been successfully established with the latter feeding into Annual Performance Reviews and updated Poverty Reduction Strategy documents. While some clients (e.g. Vietnam) have shown consistent interest in understanding poverty and social impacts of policy reforms, most have not been as strong a source of demand as originally anticipated. Many government officials consider PSIA yet another requirement or transaction cost imposed by the World Bank and a possible source of delay for loan disbursements.

Domestic civil society in countries has frequently taken an interest in PSIA, but their capacity for contributing to the process can be limited. The Bank has had positive experiences with PSIAs undertaken jointly with local think tanks in countries like Indonesia, Mexico, Tanzania, and Vietnam, which suggests that investing in the capacity of non-government stakeholders would be worthwhile for the purpose of facilitating in-country policy formulation. Such capacity development would help to strengthen the demand for PSIA as well as reducing supply-side constraints. Among other in-country stakeholders, bilateral donors have expressed varied interest in PSIAs, with Belgium, Germany, Norway, and the UK generally showing more interest than others. They have been both a source of demand and funding for such work, influencing other country stakeholders' interest in the process.

5.0. Emerging recommendations

The review has identified a range of obstacles in undertaking PSIA work, including budget, staffing, time constraints, and a lack of clarity concerning which reforms to identify as likely to have poverty and social impacts. Moreover, operational staff members frequently face weak demand for PSIA-type work from Bank management or from clients. The main recommendations emerging from this review can be summarized as:

Recommendations	Current status/next steps
➤ Continue mainstreaming PSIA by	Country directors, sector directors and

encouraging teams to integrate PSIA planning and budgeting into discussions of country-level AAA priorities	managers can encourage the inclusion of more poverty and social impact analysis type work in their planned work program while leaving the flexibility to respond to sudden client requests for such work – this can start with the FY10 AAA work program
➤ Provide practical guidance to PSIA TTLs for undertaking “quick and dirty” distributional analysis, assessing the impact of reforms with complex transmission channels, and using cross-country examples of the impacts of similar reforms in order to lessen the constraint of internal Bank and client time pressures	PRMPR and SDV to provide more examples of such work through website, country clinics and training including in FY09 work program
➤ Make the review process of poverty and social issues more systematic, both by regional and corporate staff/management, especially at the concept paper review	Discussions with regions, and greater regional/network management oversight on extent/quality of relevant distributional analysis in DPLs required
➤ Acknowledge best practice use of poverty and social impact analysis in DPLs	Request Regional Chief Economists to highlight good practice examples which are shared electronically and through regional, PRMPR and SDV websites. OC and ROC chairs can also verbally highlight relevant, good quality and timely distributional analysis
➤ Engage clients on potential benefits of PSIA type work by showcasing relevant regional examples	Regional staff will require greater exposure to such examples in order to feed these into their dialogue. PREM/SDV, along with Regional Chief Economist’s offices, will augment knowledge sharing initiatives to reach this target audience
➤ Implement steps to strengthen the skill mix required to carry out poverty/impact assessments	New trust fund will augment the number of staff trained in poverty and social impact analysis
➤ Provide greater funds for PSIA type work with greater emphasis on flexible funding arrangements for ‘just in time’ policy advice on distributional issues	New trust fund being negotiated with Norway, UK and Germany which will include funding for ‘just in time’ work

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ANNEX 1: LIST OF DEVELOPMENT POLICY LOANS SELECTED FOR REVIEW⁷

Development Policy Loans approved in FY2006	Selected for in-depth desk review	Selected for interview
Afghanistan Programmatic Support for Institution Building 2	x	
Armenia PRSC 2		
Bangladesh DSC 3	x	
Bangladesh Education Sector DSC 2		
Bhutan DPG 1	x	
Brazil Minas Gerais Partnership for Development		
Brazil Programmatic Sustainable and Equitable Growth 2	x	x
Burkina Faso PRSC 6		
Cameroon Forest and Environmental Development Program Grant	x	
Cape Verde PRSC 2		
Chile Urban Transport DPL	x	
Colombia Business Productivity and Efficiency DPL 1		
Croatia PAL	x	
DRC Transitional Support for Economic Recovery Operation Grant	x	
Egypt Financial Sector Development Policy Loan	x	
El Salvador Broad-Based Growth DPL 2		
Gabon NRM DPL 1	x	
Georgia PRSO 1		
Ghana PRSC 3	x	
Ghana PRSC 4		
Guatemala DPL 1		
Guyana PRPMO	x	
Indonesia DPL 2	x	x
Lao PdR PRSC 2	x	
Macedonia PDPL 1		
Madagascar PRSC 2		
Mali Economic Policy and Public Finance Management Credit		
Mexico Environment DPL 2	x	
Mexico Finance and Growth DPL		
Mexico Housing and Urban Poverty Reduction DPL 2		
Mexico Program Competitiveness DPL 1	x	
Morocco Financial Sector DPL		
Morocco Public Administration DPL		
Mozambique PRSC 2	x	x
Niger RSRC 1		
Pakistan Punjab Education Policy Credit 2		
Pakistan Punjab Education Development Policy Credit 3		
Pakistan NWFP DPL 1		
Pakistan Punjab Irrigation Sector DPL 1	x	

⁷ All DPLs approved in FY 2006-07 (a total of 107 loans - 56 selected for desk review and 12 for interviews with TTLs) were selected for the purposes of this review.

Peru Decentralization and Comp DPL 3	x	
Rwanda PRSG 2	x	
Senegal PRSC 2	x	
Serbia and Montenegro PPFDP	x	
Tanzania PRSC 3		
Tanzania PRSC 4		
Timor Leste CSP 1	x	
Turkey PPDPL		
Uganda PRSC 5	x	
Ukraine DPL 1	x	
Vietnam PRSC 5	x	x
Development Policy Loans approved in FY2007	Selected for in-depth desk review	Selected for interview
Afghanistan Programmatic Support for Institution Building 3		
Albania DPO 1	x	
Armenia PRSC 3	x	
Bangladesh DSC 4	x	x
Bangladesh Education Sector DSC 3		
Bangladesh Railway Reform Programmatic Development Policy Credit	x	x
Benin PRSC 3	x	
Benin PRSC 4		
Bhutan DPG 2		
Bulgaria Social Sector Institutional Reform DPL 1	x	x
Burundi ERSG	x	
Cape Verde PRSC 3	x	
Central African Republic Re-engagement and Institution Building Support Program	x	x
Chile Ministry of Public Works DPL		
Colombia Business Productivity and Efficiency DPL 2		
Colombia Labor and Social DPL	x	
Colombia Programmatic Development Policy Loan for Sustainable Development 2		
Croatia PAL 2		
Georgia PRSO 2		
Georgia PRSO 3	x	x
Ghana PRSC 5		
Guatemala DPL 2	x	
Haiti EGRO 2	x	
India Andhra Pradesh Economic Reform Loan 3	x	
India Orissa Socio-Economic DPL 2	x	
Indonesia DPL 3		
Lao PRSO 3		
Macedonia PDPL 2		
Madagascar PRSC 3		
Mali PRSC 1	x	
Mauritius Trade and Competitiveness DPL 1	x	
Moldova PRSC 1	x	
Morocco Energy DPL	x	

Morocco Water Sector DPL	x	x
Mozambique PRSC 3		
Namibia Education and Training Sector Improvement Program		
Nicaragua PRSC 2	x	
Niger RSRC 2	x	
Pakistan NWFP DPL 2	x	
Pakistan PRSC 2	x	
Pakistan Punjab Education DPL 4		
Pakistan Punjab Irrigation Sector DPL 2		
Pakistan Sindh Education DPC 1	x	
Panama PF and Institutional DPL	x	
Peru Fiscal Management and Competitiveness DPL		
Peru Results and Accountability (REACT) DPL		
Philippines DPL 1	x	
Rwanda PRSG 3		
Senegal PRSC 3		
Sierra Leone GRGG	x	x
Tajikistan Programmatic DPG	x	x
Tanzania PRSC 5		
Turkey Competitiveness and Employment Development Policy Loan		
Uganda PRSC 6		
Uruguay Reform Implementation DPL	x	
Vietnam Program 135 Phase 2 Support Credit		
Vietnam PRSC 6		
Selected Development Policy Loans approved in other years⁸	Selected for in-depth desk review	Selected for interview
Nepal PRSC 1 (2004)	x	x
Colombia Programmatic Fiscal and Institutional Structural Adj. Loan 2 (2005)	x	x
Madagascar PRSC 1 (2005)	x	x
Pakistan PRSC 1 (2005)	x	x
Cambodia PRGO (2008)		x
Honduras PRSC 2 (2008)		x
India Bihar DPL 1 (2008)		x
Pakistan Higher Education Project (2008)		x
Tanzania PRSC 6 (2008)		x
Turkey PPDPL 2 (2008)		x

⁸ Final Program Documents for FY2008 DPLs were not yet available.