



# ***Poverty and Social Impact Analysis***

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*Website: [www.worldbank.org/psia](http://www.worldbank.org/psia)*



## ***Outline***

- The Context
- What is PSIA?
- Core Elements of PSIA
- How has it been used?
- Complementarities with other analytical instruments
- Upstreaming and Mainstreaming



## *The Context*

- PRSPs have given greater impetus to the understanding of impacts of policy reforms on the poor to underpin development strategies
- PSIA emerged in the context of reforms likely to be supported by PRSC and PRGF operations
  - Includes macroeconomic, structural and sectoral reforms
  - Although the Bank has comparative advantage in poverty analysis, PSIA involves shared responsibility between Bank and Fund
- Breaking down silos: understanding of policy impacts enhanced by collaborative economic and social analysis.
- Although poverty analysis is not new, recognition that prior ESW was less focused on impacts of specific reforms.



## *What is PSIA?*

- PSIA is the analysis of intended and unintended consequences of policy interventions (ex-ante, during implementation, and ex-post) on the well-being of different social groups, with a particular focus on the poor and vulnerable.
- PSIA focuses on
  - distributional impacts on different stakeholders
  - positive and negative impacts, income and non-income dimensions, and intended and unintended consequences.
- PSIA helps to examine assumptions and causality from policy change to impacts
- PSIA looks also at how these impacts are transmitted and how institutional relationships may be affected by reforms
  - Utilizes a range of social and economic tools depending on the context, reform, and availability of data/time/capacity.
- Unit of analysis is the reform, not the strategy as a whole

# Tools for Analyzing Impacts

- ✚ A multidisciplinary approach is critical and feasible
- ✚ Choice of analytical method and tools depends on:
  - ③ the nature of impacts (direct and indirect)
  - ③ the channel through which impacts are transmitted
  - ③ data, resources and client capacity

Types	Examples
Social tools	<ul style="list-style-type: none"><li>③ Participatory poverty assessment (PPA)</li><li>③ Social impact assessment (SIA)</li><li>③ Social capital assessment tool (SOCAT)</li><li>③ Willingness to pay/affordability studies</li></ul>
Economic tools for direct impact analysis	<ul style="list-style-type: none"><li>③ Benefit incidence analysis</li><li>③ Poverty mapping</li><li>③ Public expenditure tracking</li></ul>
Partial equilibrium tools	<ul style="list-style-type: none"><li>③ Multi-market models</li></ul>
General equilibrium tools	<ul style="list-style-type: none"><li>③ CGEs</li><li>③ SAM-IO</li></ul>



## ***Core elements of PSIA***

1. Clarity on reform and research questions
2. Institutional mechanisms for reform implementation
3. Affects on, and affects of, stakeholders
4. Transmission channels for impacts
5. Expected direction and magnitude of impact
6. Main risks to and from reform
7. Impact of PSIA on national policy



## ***Selecting the reform and mapping out research questions***

- **Criteria for selection of reform**
  - Expected size and direction of impacts
  - Prominence of issue in the govt's policy agenda
  - Timing and urgency of policy or reform
  - Level of national debate surrounding the reform
- **Framing the research question**
  - Identify key problems/constraints that policy will address
  - Make development objectives explicit
  - Formulate causal hypotheses linking objectives to actions to likely short-term and long-term impacts
- **Define the counterfactual**



## ***2. Institutional mechanisms for reform implementation***

- Institutions mediate the effect of policy changes on the welfare of people
  - Examine relevant social and market institutions
- Institutions may themselves be the objective of policy reforms
  - Analyze changes in incentives and rules
- Policy changes depend on organizations for their implementation
  - Incentives, performance and capacity are key
- Transaction costs affect reform outcomes
  - Markets, legal systems, public organizations



### ***3. Affects on and affects of stakeholders***

- Stakeholders affected by policy reform positively and negatively
  - Differentiated by ethnic, religious, age, spatial, livelihood, or other criteria
- Stakeholders affecting the reform
  - Institutional stakeholders
  - Powerful interest groups within the public sector, private sector, and civil society
- Focus on
  - key **characteristics, interests** in relation to the policy, **importance** to the policy reform, likely **influence** on the reform process



## **4. *Transmission channels for impacts***

- Include indicators derived from transmission channels and assumptions, to monitor reform impacts and risks
  - Employment (Guyana 6000 jobs in sugar, 1000 in bauxite but higher indirect effects)
  - Prices – production, consumption, wages (utility prices, Zambia fertilizer)
  - Access to goods and services (credit market, social services)
  - Assets – physical, natural, financial, human, social (Cambodia & Zambia land reform)
  - Transfers and taxes (lifeline tariffs, subsidies, import tax, VAT)




## ***5. Expected direction and magnitude of impact***

- Describe nature and size of principal impacts
  - Income and non-income impacts
  - Long-term and short-term impacts
  - Direct and indirect impacts
- State underlying assumptions regarding
  - Intended benefits
  - Organizational capacity and institutional performance
  - Stakeholder behavior, including behaviors of affected persons, investors and regulators



## 6. *Main risks to, and from reform*

- Identify main risks
  - Institutional risks (responsibility does not match authority or resources – transfer of social assets)
  - Political economy risks (interest groups undermine reform or capture benefits, e.g. Guyana bauxite high severance payment weakened fiscal benefit)
  - Exogenous risks (global price changes)
  - Other country risks (conflict or social tensions)
- Assess likelihood of occurrence and importance to the policy
- If crucial to success of policy, reconsider design
- ③  Social risk assessment, sensitivity analysis and scenario analysis



## ***Impact of PSIA on national policy***

- PSIA should inform policy discussions and consideration of alternatives
  - PSIA can benefit from public discussions
    - ▶ When selecting reforms for analysis
    - ▶ When analyzing stakeholders
    - ▶ When validating technical impact analysis
    - ▶ When leveraging social accountability
  - Ideally this should be linked to the PRSP process
- PSIA needs an institutional home to incorporate results into the policy process – in most cases this has been the PRSP secretariat
- Build on existing systems to contribute to development of national poverty monitoring system and capacity



# ***How has it been used?***

## ***1 - Utility tariff reform***

- Energy tariffs (Kyrgyz Republic, Pakistan)
- Main Concerns:
  - fiscal losses, lack of investments to sustain sector
- Proposed reform:
  - bring tariffs closer to cost-of-service, unbundle assets, privatize, protect poor
- PSIA focus:
  - affordability, access, quality of service
- Findings:
  - quality and electric consumption declined
  - increased arrears undercut financial & fiscal objectives
  - substitution of coal/wood increased environmental cost



# *Privatization and enterprise restructuring*

- Vietnam SOE restructuring, Guyana bauxite
- **Main Concerns:** fiscal impact of SOE losses, private investment needed to revitalize enterprises and restore competitiveness
- **Proposed reform:**
  - lay off surplus workers, reduce operating losses, prepare units for privatization or closure
- **PSIA focus:**
  - impact on laid off workers, impact on local economy
- **Findings:**
  - estimating acceptable severance pay is feasible but may need to be negotiated with unions
  - relationship with local economy significant: mono-industrial town adversely affected, growing economies cushion impact
  - environmental impacts unclear



## 3 - *Agricultural reforms*

- Malawi ADMARC, Chad cotton, Guyana sugar; Cambodia / Zambia land reform, Mongolia cashmere
- **Main concerns:** sector inefficiency, poorly targeted subsidies, rent seeking, attract private investment
- **Proposed reform:**
  - restructuring marketing boards/state monopolies, reducing subsidies and tariffs, increasing production and export potential
- **PSIA focus:**
  - impact of reforms on access to inputs and marketing of products, impact of land reforms on assets and access to services for the poor, distributional impacts of tariff/subsidy reform
- **Findings:**
  - food security is a major concern of the poor
  - impact varies considerably within countries depending on quality of infrastructure and development of private marketing channels
  - Pro-poor can be increased through prior investments in agri. infrastructure
  - land reforms are risky in countries with weak institutions
  - Land hunger could lead to environmental degradation.



# ***Upstreaming and Mainstreaming***

- Steady state scenario for PRSP countries
  - PSIA conducted by borrower countries as part of PRSP process and monitoring integrated within PRSP M&E
  - CAS drawn on PRSP and describes plan to fill PSIA gaps within context of ESW program
  - CEM and operational lending instruments draw on PSIA and reflect findings in operational documents
- PSIA of key reforms not covered by above PRSP process
  - When key reforms with significant impacts have not undergone PSIA, stand alone work may be conducted in the context of individual lending operations
- Key Message: Integrate PSIA within the country strategy, programming cycle and analytical instruments.