

Management Response

Introduction

Management regards the Independent Evaluation Group (IEG) review of the World Bank's Poverty and Social Impact Analysis (PSIA) as a comprehensive attempt to reflect lessons from a wide range of PSIA done by the Bank. The findings of the review reflect work conducted through a mix of portfolio review and interviews and highlight important areas where the PSIA approach can be strengthened.

Support for Strengthening the PSIA Process.

The emphasis of the report in the following areas is especially welcome: the need to specify clear operational objectives; the importance of political economy in doing poverty and distributional analysis; the need for strong linkages between the country unit and the PSIA team; the potential for more effective use of PSIA findings to inform monitoring and evaluation systems; and the importance of strengthening quality assurance. Although robust progress has been made on many of these crucial elements, IEG's observations will assist future actions in these areas.

A Differing View on Some Elements. That said, management is of the view that some of the findings of the report are based on a partial understanding of the PSIA approach, including its objectives and limitations. The comments below on the analysis in the review reflect this differing view. Management broadly concurs with IEG's recommendations on the way forward to enhance the effectiveness of PSIA and notes a number of actions already taken or planned in the directions suggested by the recommendations.

Management's Views on the Findings

Management concurs with much of the analysis but believes that the analytical framework makes

some of the finding ambiguous. It also notes an issue that is often difficult in evaluation—the fact that approaches like PSIA evolve continually based on experience. That said, management is in broad agreement with the thrust of the recommendations.

A Flexible Approach. Some of the key findings of the evaluation appear to be linked to its treatment of PSIA as more of a standardized approach adhering to somewhat rigid guidelines, rather than one that incorporates a range of tools and methods to be flexibly applied to specific situations.¹ As reflected in the initial PSIA User's Guide, the revised Good Practice Note, and the forthcoming revised PREM-SDV Web page, PSIA comprises a range of tools that can be applied to analyze distributional and social impacts in widely varying situations, depending on the specific contexts of policy reform and country circumstances. The updated Good Practice Note of 2008 reinforces the flexible nature of the approach as necessary for PSIA to be effective in informing policy dialogue and operations. In particular, the evaluation of PSIA against the three specific criteria selected by IEG (see below) appears to flow from IEG's treatment of PSIA as a standardized approach.

Criteria for Evaluating PSIA Work. Some of the findings of the review appear to be based on criteria drawn from an overly broad characterization of the objectives of PSIA. Based on the Good Practice Note, the institution defines the main objective of the PSIA approach to be to analyze the distributional impact of policy reforms on the well-being or welfare of different groups, with particular focus on the poor and vulnerable. The review, on the other hand, uses what IEG considers as PSIA's three goals from its reading of PSIA documents as the criteria for

evaluation—effect on country policies, supporting in-country capacity building, and informing Bank operations—without making the distinction between the main objective and potential benefits. Informing country policies and building capacity in countries should be considered as desirable second-order impacts that may come from a process of engagement over time, but rarely from a single PSIA exercise.

Evolution of PSIA over Time. The review takes a somewhat static view of PSIA, which in management’s view does not adequately reflect the significant progress made over the last seven years. The learning and evolution over time has resulted in the refinement of the institutional understanding and guidance concerning best practice of PSIA, which has been reflected in the Good Practice Note of 2008. The static view adopted by the review also gives little indication of whether some of the problems highlighted in the evaluation were mitigated over time.² This, in management’s view, constitutes a missed opportunity to draw lessons for the future, by identifying and analyzing areas where progress has been made and where it has been harder to achieve.

Recommendations

As noted above, management concurs with the broad thrust of IEG’s recommendations and will undertake actions to address the issues raised. Management’s specific responses to IEG recommendations are given in the Management Action Record matrix.

Better Integration into Bank Programs.

Management concurs with IEG’s recommendations to ensure better integration of PSIA into the Bank’s program and enhance the quality assurance process of PSIA. Conclusions along similar lines are emerging from internal reviews of PSIA by PREM and SDV anchor units. A new Multi-Donor Trust Fund to support PSIA work, to be operational in fiscal 2010, incorporates a number of features consistent with these recommendations. The Trust Fund assigns responsibility to the Regions, in terms of allocating funds, monitoring, and quality review of the analytical work funded by the Trust Fund.

Guidance. Management concurs with the recommendation to provide clear guidance to Bank staff about what the PSIA approach involves and when it can be used. Over the years, a number of knowledge products on PSIA have been developed and updated, including comprehensive user guides, Good Practice Notes, methodological notes, and edited volumes. The outreach of such materials will be enhanced further through an improved Web site and more frequent and accessible learning events, drawing on additional resources provided by the aforementioned Multi-Donor Trust Fund. Management, however, notes an important caveat in addressing this recommendation. Efforts to expand awareness about the PSIA approach must be careful to not create perceptions of minimum or universal standards for PSIA, and instead stress the flexibility of the approach to adapt to specific country and policy contexts.

Management Action Record

IEG recommendation	Management response
<p>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) disseminated to staff and disseminating this guidance, particularly on—</p> <ul style="list-style-type: none"> • 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 PSIA should be linked to specific reforms and identify beneficiaries and those adversely affected by the reform • What criteria should be used to determine when the PSIA approach is appropriate for a particular operation in a country program. 	<p>Agreed. Management agrees that it should disseminate more widely what is meant by the PSIA approach as outlined in the 2008 Good Practice Note.</p> <p>Management, however, notes an important caveat in addressing this recommendation. Efforts to expand awareness about the PSIA approach must be careful to not create perceptions of minimum or universal standards for PSIA, and instead stress the flexibility of the approach to adapt to specific country and policy contexts. The revised Good Practice Note (GPN) discusses key elements of the PSIA approach: first, an analysis to determine the distributional impacts and, second, a process that engages appropriate stakeholders in policy making.³ The GPN also makes it clear that an ideal PSIA will vary based on country and reform-specific conditions. In particular, the range and extent of stakeholder engagement in the PSIA process will vary according to the political context of the reform and the related opportunities for promoting the public debate on policy options. The GPN clarifies when it could be a priority for a country team to carry out detailed PSIA: when there are potential negative poverty and social impacts on different groups, particularly poor and vulnerable groups; when there is potential to significantly improve the benefits of a reform for poor and vulnerable groups; the prominence and urgency of the report in the government’s policy agenda; and the level of debate surrounding the reform.</p> <p>With regard to the methods and tools adopted for PSIA, the GPN stresses the need for flexibility as well. While multidisciplinary or mixed methods of analysis enhance the understanding of the poverty and social impacts of a reform, the design of the methodology and the selection of tools will depend on the nature of the reform problem being addressed, the availability and quality of data, the time available for analysis, and the available in-country capacity.</p> <p>PREM and SDV are already incorporating the revised GPN into their PSIA-related learning programs (Fundamentals of Bank Operations, PSIA e-learning, PSIA course). Management will further enhance outreach using these materials through an improved Web site that more clearly frames the main objective and potential benefits, as well as the need for a flexible approach, and more frequent and accessible learning events, drawing on additional resources provided by the aforementioned Multi-Donor Trust Fund. Management will consider its agreed action complete with the full roll-out of these activities in fiscal 2010.</p>
<p>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—</p> <ul style="list-style-type: none"> • 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 • Discusses if the intended dissemination audience and strategy are consistent with the stated operational objectives. 	<p>Agreed. Management agrees that poverty, social, and distributional impact analysis should have a clear operational objective and a methodology and strategy for stakeholder engagement and dissemination that is consistent with the operational objective.</p> <p>Almost all PSIA type analysis is done in the context of economic and sector work (ESW), where Bank guidelines require that the operational objective, scope, and participatory approaches be clearly specified in the concept note. The revised GPN indicates that poverty, social, and distributional analysis should be an integral part of the ESW cycle. All dissemination activities need to be fully consistent with the Bank’s Disclosure Policy.</p> <p>PSIA can also be done in the context of technical assistance, where the objective is to strengthen client institutions and capacity to influence reforms or as a factual technical document analyzing a specific policy reform supported by a Development Policy Operation.</p> <p>Once operational, the new PSIA trust fund will require that the Regions detail in their concept notes how they will ensure that poverty, social, and distributional analysis (supported by the Trust Fund) is treated as an ESW, technical assistance, or a project-related factual technical document. Management will consider its agreed action complete with the introduction of these requirements.</p>

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<p>Improve integration of the PSIA into the Bank's country assistance program by—</p> <ul style="list-style-type: none"> • Shifting 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 • Requiring that all earmarked funding for PSIAs be matched by a substantial contribution from the country unit budget. 	<p>Agreed. Poverty, social, and distributional impact analysis that is part of ESW, technical assistance, or a project-related factual technical document is currently managed and funded by the Regions. The revised GPN explicitly advises that poverty, social, and distributional impact analysis be anchored in the Country Assistance Strategy (CAS). Under the revised policy for poverty reduction (OP 1.00), the CAS summarizes existing knowledge on poverty, identifies analytical gaps, and presents the work program by the Bank and others to fill these gaps. The CAS can usefully lay out key reform areas that the Bank will support and indicate whether there are any plans for poverty, social, and distributional impact analysis.</p> <p>The new PSIA trust fund will decentralize the management of resources for poverty, social, and distributional impact analysis carried out as ESW, technical assistance, and factual technical documents to the Regions. The Regions will be required to provide matching resources from the country unit budget. The annual Trust Fund Regional monitoring reports will indicate the share of matching resources provided to complement Trust Fund support. Management will consider its agreed actions complete with the roll-out of the trust fund.</p>
<p>Strengthen PSIA effectiveness through enhanced quality assurance, including—</p> <ul style="list-style-type: none"> • Subjecting PSIAs to systematic review by Regional management at the concept and completion stages to ensure relevance and fit of the PSIA to the country assistance program as well as consistency of the proposed approach with operational objectives, in addition to ensuring technical quality • Ensuring that the Bank establishes a monitoring and self-evaluation system designed to assess whether PSIAs are being undertaken where appropriate and are achieving their stated operational objectives. 	<p>Agreed. PSIA work that is part of ESW is subject to Regional quality assurance procedures and the preparation of an activity completion report. As noted in the Management Response to IEG's evaluation of ESW and technical assistance, management will undertake a review of analytic and advisory activities in fiscal 2010 that will address institutional arrangements, notably quality assurance.</p> <p>The quality and effectiveness of PSIA informing the Bank's Development Policy Operations has been monitored through the retrospective assessment of the Bank's Development Policy Lending portfolio that has been carried out every two years by Operations Policy and Country Services. A Development Policy Operation retrospective is under preparation and will be available early in fiscal 2010.</p> <p>The proposed PSIA trust fund annual Regional monitoring reports as well as the final independent Trust Fund evaluation will assess the extent to which poverty, social, and distributional analysis (supported by the Trust Fund) has met its operational objectives and has had an impact on the ground.</p> <p>Management will consider its agreed actions complete with the completion of the fiscal 2010 analytic and advisory activities review and the implementation of changes coming out of that process, the issuance of the Development Policy Operation retrospective, and the implementation of the trust fund reporting system.</p>

Chairperson's Summary: Committee on Development Effectiveness (CODE)

On June 3, 2009, the Committee on Development Effectiveness (CODE) met to consider the document *How Effective Have Poverty and Social Impact Analyses Been? An IEG Study of World Bank Support to PSIA*s, prepared by the Independent Evaluation Group (IEG), together with the draft management response.

Overall Conclusions. The Committee welcomed the timely discussion of IEG's study of Poverty and Social Impact Analysis (PSIA), particularly in light of the ongoing discussion to establish a Multi-Donor Trust Fund to support PSIA work, to be operational in fiscal 2010. Members recommended enhancing the use of PSIA but clarifying the operational objectives of each PSIA exercise. They proposed establishing a hierarchy of objectives and following up on PSIA findings with appropriate dissemination and disclosure, including in several languages. They stressed the importance of linkage with country assistance programs and flexibility in PSIA, albeit with clear accountability, rather than having a standardized approach adhering to rigid guidelines. There were comments on the importance of capacity building but perhaps as a second-order objective of PSIA. Members felt that important lessons could be drawn from the past experience in conducting PSIA. In this regard, they felt the decentralized management of the new PSIA Trust Fund to the Regions was appropriate. The desirability for the Bank to share the PSIA report with other donors or development partners was mentioned.

The following key issues were raised at the meeting:

PSIA Operational Objectives. Many members stressed the importance of PSIA in emphasizing social and economic analysis ex ante on the distributional impact of policy reform, with particular focus on the poor. They agreed that the operational objectives of such analysis should be clarified and adapted to each specific country policy context. Some members underlined that PSIA should not be an item within a checklist to be complied with once an intervention has already been decided, and suggested that poverty distribution analysis ideally should be conducted upstream so as to be an input to policy design. There were comments on the relevance of the objectives of informing the country policies and building capacity in client countries to conduct their own PSIA. However, there were also views that perhaps both should be second-order objectives of PSIA. One member felt that building capacity should not be an objective at all because it requires separate activities. One speaker queried whether local institutions could be more involved in the preparation of PSIA.

Questions were raised on integration and compliance with Operational Policy 8.60, which requires that the Bank determine whether specific country policies supported by Development Policy Loans (DPLs) are likely to have significant poverty and social impact. Supporting assessment can be done through PSIA or embedded in other analytic work. In addition,

there were questions on the rationale and criteria for country selection, and who initiates the request or proposal for conducting a PSIA. One member asked to what extent gender issues have been adequately mainstreamed in the new Good Practice Note. *Management agreed with IEG on the need to ensure that staff understand what the PSIA approach is and stated that it would disseminate widely the revised Good Practice Note, and enhance the quality assurance process.*

Country Program. Speakers underscored the need for PSIA to become an integral part of country assistance programs and Bank operations, and to consider the political economy dimension in doing poverty and distribution analysis. The need for stronger linkages between country units and PSIA teams was emphasized. Some speakers noted the need for flexibility in applying a range of tools and methods to specific situations rather than treating PSIA as a standardized approach. It was also suggested that the topic and timing of the PSIA should be aligned with the country's priorities and the objectives of the Country Assistance Strategy (CAS). Relatedly, there were comments on the need for engaging country stakeholders to build ownership, especially among policy makers. There were also questions on the extent to which PSIA's are used in the design of DPLs. In addition, some members sought further information on countries' demand for PSIA. *Management agreed with IEG's recommendation on the need to ensure better integration of PSIA into the Bank's country program. Management clarified that a number of issues, including compliance with Operational Policy 8.60 and consultations with stakeholders, will be addressed in the DPL Retrospective report currently under preparation.*

Knowledge. Some members felt that in the context of the knowledge agenda there was extensive experience that should be used to better implement the PSIA approach in the future. In this regard, they encouraged more dissemination, including translation into local languages and follow-up of PSIA findings. One

member felt that in addition to an analysis ex ante on the distributional impact of policy reform, ex post evaluations would be valuable contributions to knowledge. Some questions were raised on PSIA's relationship with economic and sector work, including Poverty Assessments. *Management stated that PSIA is a set of tools that are frequently conducted in the context of DPLs and often used in Poverty Assessments, Public Expenditure Review, and other core economic and sector work or in the preparation of investment projects. It also clarified that regional PSIA teams draw on staff from all networks and Development Economics and the Chief Economist and are further supported by the Poverty Reduction and Economic Management and Sustainable Development Anchors. It also noted that it is working to enhance the outreach of knowledge in PSIA and to improve Web-based learning. IEG pointed out that there is still insufficient ownership of PSIA findings by operational staff and managers within the Bank.*

Trust Fund. Some members felt that the main purpose of the Trust Fund should not be to save resources from regular budget. They also proposed the new Trust Fund should be designed to finance activities in which PSIA was not regularly used. A question was raised on possible lack of sustainability of PSIA funded through earmarked Multi-Donor Trust Funds. There was also a request for the Bank to share the findings of PSIA with other donors. Relatedly, a comment was raised on the need to understand whether important donor-funded activities are not bought by country directors, who therefore do not integrate them in CASs. The recommendation on shifting the decision-making and funding mandate of the new Trust Fund to Regional vice presidential units was welcomed. *Management clarified that the bulk of resources used to support PSIA comes from Bank resources, and that the financial contributions from the new Trust Fund will be very small. However, it indicated that it hopes to leverage the new Trust Fund so as to make the Regional vice presidential units more responsible and accountable for carrying out this analysis.*

Monitoring and Evaluation (M&E). Some members took note that about 75 percent of the sample PSIA did not include M&E indicators or data collection methods necessary for monitoring the impact of reform policy. They underscored the potential for more effective use of PSIA findings to inform the M&E systems.

Giovanni Majnoni, Chairperson