Joint NGO Briefing Note

Blind spot

The continued failure of the World Bank and IMF to fully assess the impact of their advice on poor people

September 2007

Introduction

It seems impossible that the World Bank and International Monetary Fund (IMF) would give advice to developing countries without fully considering how it might affect the lives of poor people. Yet, despite it being a long-stated policy of both institutions to do so, and some recent progress on the part of the IMF, they are still failing to consistently ensure that there is a proper assessment of the likely consequences of different policy actions on the poorest people.

Both institutions should urgently ensure that before they recommend a course of action, the impacts of a range of options on poor people have been thoroughly explored in a country-led process. The findings should also have been discussed by parliamentarians, NGOs, and other citizens' groups. That way, those affected by a World Bank or IMF-advised reform, policy, or project will be able to influence its direction. This will improve the policy-making process, build country ownership, *and* make it more likely to succeed.

It is particularly important that this issue is discussed as the World Bank is negotiating new funds from donors. Donors should insist on these changes being implemented to ensure that their money is more likely to result in genuine, sustainable poverty reduction.

What is PSIA and why should it be done?

There is an international consensus, reflected in the Paris Declaration on Aid Effectiveness, that policies are more likely to lead to the effective reduction of poverty if they are developed with meaningful opportunities for the participation of those they are likely to affect. This means that national poverty plans should be designed by governments with the full participation of citizens, parliamentarians, and national civil-society groups.

In order for this to happen, developing countries must first have the policy space to decide their own development model for fighting poverty. This has been recognised by the G8 whose leaders have said: *'It is up to developing countries to decide, plan and sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people'*.[1] And in the Paris Declaration, donors committed to basing their support on – and drawing their conditions from - countries' national development strategies[2]

Only with this space can developing countries begin to make choices between significantly different models of change.

But to make an informed choice that is more likely to be truly owned by that country, there also needs to be a full assessment of the consequences (intended or otherwise) for citizens of a range of alternative policies and projects, before one is selected. Assessing both the economic and social impacts of reforms on key income groups is crucial, particularly for the poorest who are most vulnerable when change happens. This is what is meant by Poverty and Social Impact Analysis (PSIA). And it is a virtuous circle: PSIA itself, if done properly, can also help to open up national debate about policy options, thus ensuring citizen engagement in policy formulation and tracking, and reducing the influence of outside agencies. [3]

International financial institutions (IFIs) can assist this process in two key ways. They can:

- stop attaching economic policy conditions to their aid, and instead align their lending with country-owned national policies, thus supporting the creation of necessary policy space;

- provide funding for developing countries to undertake and participate in full poverty impact assessments on a range of alternative policy reforms and projects, facilitating inclusive policy-making

It should not, however, be necessary to make the case for proper impact assessments. The World Bank has already clearly done so. A review of IDA 14 said:

'Recent studies have shown that systematic upstream consideration of PSIA in designing programmes enhances programme quality, and embedding PSIA work institutionally in the country's own planning processes makes it more likely that distributional impacts are systematically understood and considered. Early disclosure of the results of the analysis is also conducive to more effective dialogue and more informed decision-making. Finally, multidisciplinary approaches that combine qualitative and quantitative methods, collaboration with national partners, and explicit efforts to strengthen the capacity of governments and national analysts enhance the impact of the analysis on policy and on policymaking processes.'[4]

Having made this excellent statement, which is, after all, echoing official policy in place since 2004, the World Bank now needs to systematically implement its contents..[5]

The IMF's board has also repeatedly said that the institution needs to use such analysis more consistently in its reports and policy advice.[6] But neither institution is either adequately supporting developing countries to undertake this process, or carrying out the vital analysis themselves. In the case of the World Bank, it is particularly egregious that it is asking donors to replenish funds in the current IDA funding round, but seems set to continue to lend that money without doing the analysis to know that it will be spent in the way that most efficiently reduces poverty.

Of course, PSIA cannot mask the fact that there are often no easy options in a reform process. And it is not cost-free. There can sometimes be real trade-offs between fostering debate and the need to inform policies in a timely manner. Furthermore, impact assessment cannot annul politics or soften the clash of competing domestic interests. However, it can and should ensure that policies are made in a more informed way. And if a country really isn't ready to implement a change, there is plenty of evidence that it will not in any case be sustainable.

What does good PSIA look like?

From start to finish, the process should be *driven by the country* (i.e. the government – in consultation with stakeholders, including civil society) rather than by the IFI. While the IFI has a responsibility to ensure that no major reform or project goes ahead without PSIA, the IFI should not be conducting the analysis alone. Instead this multi-stakeholder group (which should be the same group as that drawn together for poverty reduction strategy process) should decide what is to be examined and lead the methodology design, while independent developing-country researchers should play a leading role in the study, supported by the IFI, and donors. This has the additional benefit of developing analytical capacity in-country.[7]

The World Bank together with donors should also provide increased funding to enable developing countries to conduct PSIA themselves. This would both allow Southern research institutions to carry out their own studies, and develop the capacity of the government to administer and manage PSIA and so foster a greater sense of domestic policy ownership.[8]

Too often, the World Bank and IMF (and some bilateral donors) are put off doing PSIA because of concerns that it will cost too much and take too long. Capacity constraints should not be an excuse for not doing this vital work. In the case of the World Bank, even a very simple approach, such as a desk study carried out by an in-country researcher, can deliver a preliminary PSIA while more complex approaches are developed.

At the IMF, there is much more scope for Resident Representatives and their local staff to liaise with in-country researchers. And PSIA from outside the specific country should be read more widely across regions and organisational departments to improve understanding of possible consequences in the first instance.

PSIA should consider a *range of options* rather than just serving as a way to make a particular policy more palatable. An effective PSIA should be based on the idea that a reform or project entails a significant outlay for a government, and therefore needs to assess whether it is value for money in terms of the poverty impact. It should look at two or three different ways to achieve the same outcome, examining the effects on the poorest people of each one. It could also include the cost to government and the trade-off this would entail against other expenditures.

PSIA should use both *qualitative and quantitative* techniques, for a full understanding of likely consequences.[9]

The study should be a genuine attempt to judge the differing impacts that a certain policy would have on different groups of people. This should specifically include a *gender dimension* as vulnerable women are affected differently by change than men are, even men living in the same household.

The *timing* of the analysis has to be right. As a report from the UK Department for International Development (DFID) says: 'In order to make a real impact on policy decisions, PSIA should be undertaken as early as possible prior to policy formulation. The potential policy options and trade-offs should then be considered on the basis of evidence, and the best solution identified.'[10]

Finally, the way in which PSIA is used is also vital. PSIA should not simply be a means to design safety-net programmes, or used to drive through conditionality, but instead be made available to relevant stakeholders – particularly the most vulnerable – to *spark debate*. This would mean that decisions made in the reform process are genuinely embedded in the needs of the domestic population, particularly those of the poorest, and that the trade-offs that the reform entails are acceptable. This is how to make effective, sustainable policy that will deliver results in fighting poverty in the long term. See the box below for two examples of a positive PSIA process.

Box 1: Some positive precedents

Romania: The government needed to restructure its mining sector in 2004. Aware that the closure of uneconomic mines had been triggering large-scale redundancies, the Ministry of Economy and Commerce asked for a PSIA. The analysis was developed in close partnership between the government and the World Bank. It examined the distributional impacts of the reform on mining and non-mining communities; gender impacts; and the distribution of wages and subsidies in the mining sector. It found, for instance, that women are more affected by the closure of mines than men, and to a greater extent than is the case with other professions. The study led to, among other things, the creation of a monitoring programme and a small grants scheme especially for women and young people.[11]

Ghana: While the final list of subject matters for a 2003 PSIA was, in the end, selected by the donors including the World Bank and IMF (which insisted on petroleum pricing and electricity tariffs being added to the list), there had been a very good, inclusive process for choosing topics until that stage. The National Development Planning Commission – a government body that also oversees the Poverty Reduction Strategy – held a series of national workshops to discuss PSIA opportunities in the country, according to a Eurodad study. [12] The final PSIA influenced the government's design of the petroleum subsidy and identified means to offset the negative impact of the reform on the poor.

How PSIA is not being done as it should

While there is some impact analysis being done by both institutions,[13] it is still often not translating into successful, sustainable pro-poor policy making. There are a number of ways in which the implementation of PSIA is failing.

IFIs failing to ensure PSIA influences programme design

When PSIA has been carried out it often has little influence on World Bank and IMF programme design. In many cases the *timing* of PSIA is wrong. Often PSIA is conducted after the reform has already been implemented or too late to feed into decision-making. However, even when it is done on time, it is sometimes ignored by staff when designing their lending programmes. A World Bank review in 2006 found that project documents written by staff failed to make proper use of PSIA assessments, merely including generic information on poverty in a country. In the case of the IMF, a 2007 Independent Evaluation Office (IEO) report found that 'Going forward, close management of PSIAs is needed to prevent them from becoming a bureaucratic requirement with little impact on programme design and outcome'.[14]

Unpublished World Bank research on PSIA says that the process as currently carried out is not properly embedded in the client country's own planning processes, and that there is no systematic approach to the selection of reforms for PSIA, meaning that 'elements of the reform program with potentially significant poverty and social impacts may not be covered'. A 2004 IEO report said that: 'PSIAs of key macroeconomic policy proposals are rarely undertaken and do not represent a significant ex ante input into policy formulation'.[15]

IFIs failing to look at a range of policy options

Both IMF and World Bank PSIA rarely explore different policy options. An impact assessment that does not look at different options is *not* proper PSIA. A Eurodad report found that of 18 PSIA summary reports examined, only three discussed various policy options.[16] A report by the Norwegian Government that looked at conditionality used by both IFIs found that 'little effort has been made to elaborate policy alternatives'. [17] The IMF says that it does explore options with country authorities, but that these conversations are not made public. However, as discussed below, such public discussions are an integral part of an effective PSIA process.

IFIs failing to conduct PSIA that is comprehensive

Of the 35 PSIAs examined by a World Bank review, only eight gave a comprehensive analysis of distributional impact on both winners and losers. And the majority only looked at the positive effects of a reform.[18]

IFIs failing to ensure PSIA is country-led

The World Bank's PSIA guidelines say that the process should involve as many key stakeholders in the reform as possible, including civil society.[19] But by the World Bank's own admission, a PSIA on education reform in Nicaragua did not 'feed into any open and transparent dialogue with other actors in order to discuss its focus and methodology', for example.[20] In some cases, stakeholders who were likely to oppose reforms were *actively kept out* of the discussions. In one early PSIA, union members were not included in a study looking at the Chittagong Port in Bangladesh. A Eurodad study also found that in many PSIAs, researchers from the relevant country were involved only tangentially or not at all.[21]

IFIs failing to engender public debate in-country

One of the key reasons for undertaking PSIA is to enable developing countries to have informed debate about their own development. However, much PSIA is never made public, preventing open and frank discussions of the pros and cons of different policy choices.[22] While the IMF has carried out a limited number of micro-level PSIA, it has not made attempts to use these highly technical documents, and convert them into a tool for stimulating debate among the wider population. While the IMF says that it does discuss preliminary findings with a broad group of stakeholders, a 2007 IEO report described IMF engagement with developing-country civil society as 'limited and ineffective'.[23] Again, the IMF's response that communication is the responsibility of the country authorities is inadequate: it also has a responsibility to ensure that the implications of its programmes are properly communicated.

Why is PSIA not happening properly?

It seems strange that the World Bank and IMF are still not ensuring that their advice is underpinned by proper PSIA, given that there is:

- evidence that PSIA creates a win-win situation for donors and developing countries (reforms tend to fail unless they are country-owned and based on analysis of the impact of a range of policy choices);
- strong support for the process from leading donors including Germany, the UK, Canada, the Netherlands, and Belgium, as well as civil society.

So why are they failing to deliver?

One key reason is that there is a lack of incentives for World Bank staff to deliver proper PSIA. PSIA is still not a formal piece of 'analytical' work, the production of which is monitored by World Bank systems. Therefore the differing elements of PSIA are carried out in a haphazard fashion as part of different processes. It is often seen as a box-ticking exercise. Now that a dedicated $5m PSIA fund has run out, staff have little incentive to do work labelled 'PSIA', and there is evidence that the number of PSIAs is declining. There are currently no plans to replenish this fund. In view of the fact that doing PSIA is a World Bank policy, this piecemeal approach is wholly unsatisfactory.[24]

In addition, it is common for the World Bank to produce analysis without input from developing country researchers, as found by a panel of eminent economists who reviewed the institution's research work.[25]

More broadly, the World Bank is still failing to operate as if its role were to help countries deliver their own development plan. A report from the Independent Evaluation Group of the World Bank found that the Bank's assistance is not sufficiently tailored to country conditions, as well as being overly-ambitious, for instance.[26]

The IMF argues that it does not have the mandate or the resources to carry out PSIA in every instance. An IMF report on its performance in Viet Nam said that PSIA on the reform of State Owned Enterprises had not been considered a priority because: 'Some staff did not consider the distributional impacts to be particularly central to the mandate of the Fund', adding that PSIA was also more difficult because of high IMF staff turnover.[27] The IEO also states that the IMF intended to make use of World Bank PSIA, but that the latter product is not always of sufficient quality. [28]

However, while it is not necessary for the IMF itself to be part of a stakeholder group that works on PSIA, it does, for reasons of accountability, have a duty to ensure that PSIA has been carried out. What is clear is that it should not advise clients to undergo reforms (or make them a condition of staying 'on –track' with an IMF programme) without analysing the impacts of this reform on the poor.

The IMF frequently states that macro-level assessments of the impact of policy change on poor people are too difficult to carry out. But while there are undoubtedly methodological and data difficulties, these are clearly surmountable. Indeed, the IMF has carried out several such generalised studies which could be drawn from in a specific country context.[29]

The IMF has recently said that it will work with countries to develop alternative macroeconomic policy scenarios, and has been doing so in the case of Zambia, Sierra Leone, Ethiopia and Rwanda. This is welcome progress, and the IMF should ensure that these are underpinned by PSIA.

However, this analysis of the failure of both institutions is not to deny that at times, the developing country itself has been resistant to such participatory analysis, perhaps because of vested interests inside or outside the government, but also sometimes because it is regarded as being yet another donor-mandated condition.

Recommendations

What PSIA should look like:

- For each PSIA, a multi-stakeholder group including government, parliamentarians, civil society, donors, and the IFI should lead from the outset, setting the terms of reference; identifying priority areas for analysis; discussing policy options; and ensuring that outcomes of analysis affect policy decisions and monitoring. Where possible, this should be part of a pre-existing national policy process, such as the Poverty Reduction Strategy (PRS) process. [30]
- PSIA should be ex-ante; country-led; and the results used in a public debate, which is then reflected in the advice the institution gives that country. It should also be a genuine attempt to survey a range of policy options.
- In order to foster debate around a range of policy options, PSIA should be completed at least six months in advance of the agreement on the reform. The findings of a PSIA should be widely publicised.

The World Bank and IMF should:

- present a comprehensive strategy to ensure that country-led PSIA is included in the design of, and carried out prior to, *all* key structural and economic reforms or projects with a significant distributional impact;
- pass key programmes or major projects only where a country-owned PSIA has been carried out (where this is not the case, the staff should explain to the Board in the documentation why not);
- define what is meant by 'significant distributional impact', so that the process is transparent.

The World Bank should:

- ensure that it has sufficient human and financial capacity to conduct PSIA and announce a plan for delivering this ;[31]
- provide a dedicated annual progress report to its Board on the progress of this plan detailing how much PSIA has been done; how much has been spent on it; where it supported in-country research; and time lines showing when the PSIA was completed relative to the decision-making process;
- ensure that Country Assistance Strategies detail PSIA of planned reforms and projects, and that in-country World Bank representatives take other steps to ensure the planned studies are announced to relevant citizens' groups, in order to ensure greater forward-looking accountability;
- stop attaching economic policy conditions to its lending.

The IMF should:

- work towards a situation where developing countries design their own macroeconomic frameworks with the support of the IMF and other donors/ institutions. All macroeconomic frameworks should be underpinned by a country-driven PSIA ;
- provide a dedicated annual progress report to its Board detailing how much PSIA has been done/used in programme design;

- limit its quantitative targets to a minimum, and only use them in countries with severe macro-instability;
- ensure that any quantitative targets are the outcome of a country-driven process of discussion underpinned by PSIA, and reflect the country's decisions.

Rich country governments should:

- ensure that the final IDA 15 agreement states that country-led PSIA be used in all IDA-supported lending with a major distributional impact, and that the World Bank will not pursue economic policy conditionality in IDA countries:
- provide (together with the IFIs) more funds to Southern research institutions to do PSIA and other analytical work;
- ensure that the World Bank and IMF put sufficient funds into the PSIA process (in the case of the World Bank they should ensure that there is an annual progress report)
- pressure the World Bank and IMF in-country to ensure that proper PSIA is conducted in a way which enhances country ownership.

Notes

[1] G8 Summit Documents (2005) ‘The Gleneagles Communique’.

[2] OECD Paris Declaration on Aid Effectiveness: ownership, harmonisation, alignment, results and mutual accountability, High Level Forum Paris, February 28-March 2, 2005

[3] See A. Wood (2004) ‘One Step Forward Two Steps Back: Ownership, PRSP and IFI Conditionality’, Milton Keynes: World Vision, p. 32 for a discussion of ownership and policy advice.

[4] World Bank (2006a) ‘IDA 14 Economic and Sector Work (ESW) Progress Report’, International Development Association (IDA) and Operations Policy and Country Services, p. 14.

[5] World Bank ‘OP 8.60 Development Policy Lending’, paragraph 10, August 2004

[6] In 2002 the IMF pledged that: ‘the distributional impacts of major macroeconomic or structural reforms should be considered and reported on together with any countervailing measures to offset the impact of these reforms on the poor’. International Monetary Fund (2002) ‘Review of the Key Features of the Poverty Reduction and Growth Facility – Staff Analyses’.

[7] As Hayes says: ‘The long-term vision whereby countries present their funding requests to lenders for policy reform, having undertaken their own poverty social impact analysis and arrived at a necessary political consensus for reform must be kept in mind’, *op. cit.*, p. 21.

[8] DFID is currently looking at a way of building developing-country capacity to support PSIA.

[9] For a more complete discussion of methodologies, see L.Hanmer and B.Hendrie, ‘Poverty and Social Impact Analysis (PSIA): common themes and issues arising from five pilot studies’. Prepared for the Joint World Bank/IMF/DFID PSIA Workshop, October 15-17 2002, DFID

[10] DFID, ‘Poverty and Social Impact Analysis: Principles for Good Practice’, cited in Hayes, *op. cit.*, p. 7.

[11] A. Dani, M.-O. Rubin, D. Sandu, and L. Wang (2006) ‘Mining Sector Reform’, in A. Coudouel, A. A. Dani, and S. Paternostro (eds.) *Poverty and Social Impact Analysis of Reform Lessons and Examples from Implementation*, Washington DC: World Bank.

[12] Eurodad, *op. cit.*, p. 12.

[13] The World Bank has conducted around 150 PSIAs since 2002.[0]. However, since a dedicated fund ran out in 2006, the rate has slowed. The IMF has a PSIA unit of just four staff. Between 2004 and 2007, it carried out just 29 PSIA studies. Information provided by the World Bank and IMF in response to questions from the author.

[14] Independent Evaluation Office of the IMF (2007) ‘The IMF and Aid to Sub-Saharan Africa’.

[15] Independent Evaluation Office of the IMF (2004) ‘Evaluation of the IMF’s role in Poverty Reduction Strategy Papers and the Poverty Reduction and Growth Facility’.

[16] L. Hayes, ‘Open on Impact: Slow Progress in World Bank and IMF Poverty Analysis’, Eurodad

[17] Report prepared for the Norwegian Ministry of Foreign Affairs, (November 2006), ‘The World Bank’s and IMF’s Use of Conditionality to Encourage Privatisation and Liberalisation: current issues and policies’.

[18] World Bank (2006b) ‘Development Policy Lending Retrospective’, Operations Policy and Country Services, p. 27.

[19] World Bank (2004) ‘Good Practice Note: Using Poverty and Social Impact Analysis to Support Development Policy Operations’.

[20] A. Acevedo and A. Peralta (2005) 'La Experiencia con los Analises de Impacto Social y Distributive (PSIA) en Nicaragua', cited in Eurodad, op cit.

[21] Eurodad, *op. cit*.

[22] See World Bank (2006b), *op. cit*.

[23] Independent Evaluation Office of the IMF (2007), *op cit*

[24] The World Bank is about to start an evaluation of all its poverty reduction instruments, including PSIA, which is welcome.

[25] A.Banerjee *et al* (September 24, 2006) 'An Evaluation of World Bank Research 1998-2005'

[26] Independent Evaluation Group (2006), 'Annual Review of Development Effectiveness: getting results'.

[27] Independent Evaluation Office of the IMF (2004) 'Vietnam. Evaluation of the Poverty Reduction Strategy Paper (PRSP) Process and Arrangements Under the Poverty Reduction and Growth Facility (PRGF)', p. 57.

[28] IEO 2007 *op cit*

[29] Examples include P. Mishra and D. Newhouse (2007) IMF Working Paper WP/07/100, 'Health Aid and Infant Mortality'; D. Coady *et al.*, (2006) IMF Working Paper WP/06/247, 'The Magnitude and Distribution of Fuel Subsidies: Evidence from Bolivia, Ghana, Jordan, Mali and Sri Lanka'; and a review of the distributional effects of inflation forthcoming from IMF.

[30] This is commensurate with a goal donors signed up to in the Paris Declaration (op cit), which says that by 2010, 66% of country analytic work should be joint.

[31] This is commensurate with existing World Bank policy which says that no development policy loan should be extended unless there is adequate funding for the overall programme, which explicitly includes PSIA. Source: World Bank 'OP 8.60 Development Policy Lending', paragraph 12, August 2004

This paper was written by Elizabeth Stuart. Oxfam acknowledges the assistance of Lucy Hayes, Hetty Kovach, Max Lawson, Olivia Mcdonald, Jeff Powell, and Alex Wilks in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

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The information in this publication is correct at the time of going to press.