

## 2 Opening the aid process

### Power, poverty and policy making

Widespread frustration with the results of aid resulted in a 1999 announcement that the approach would change. In that year the Poverty Reduction Strategy (PRS) process was announced to exemplify a change in the relationship between official development agencies and recipient countries. Decisions under this framework should be **“country driven [with] national ownership of strategies by involving broad-based participation by civil society”** (IMF, 2002). The intention was to place developing countries in charge of their own destiny and to emphasise open discussions on poverty to yield improved policy formulation, implementation and monitoring, and reduce poverty more rapidly than before.

A combination of pressure from civil society organisations and bilateral donors coupled with official studies of the negative impacts of structural adjustment loans led to an increased recognition of the importance of examining the social and poverty impacts of reform processes before they are decided upon and implemented. This demand for more context-specific analysis led to the development of Poverty Social Impact Analysis (PSIA) to assist in the design of policy reforms, many of which are conditions of donor lending and aid programmes. In line with the PRS process, national governments were to have the power to choose their reform paths based on informed policy options.

**“A set of policies called structural adjustment has been forced on developing countries for more than 20 years by the World Bank, the IMF and western aid agencies”**  
SAPRIN 2004

Donors pledged to integrate PSIA into their programmes.

- In 2000 the IMF and the World Bank agreed to work together on PSIA of major macroeconomic and structural policies (Bird et al, 2005).
- In 2001 the World Bank stated that it would “introduce social and environmental analysis into a systematic review undertaken as part of PRSP preparatory work” (World Bank, 2001b: 11).
- 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” (IMF, 2002: 39).

→ In 2004 the World Bank committed to carrying out PSIA on all policy reforms included in loan agreements where ‘significant distributional impacts’ are likely (World Bank, 2004b)

Eurodad and many other civil society groups have deep concerns about whether donor practices on the ground have changed significantly to remain in line with the headquarters announcements of PRSPs, PSIA and similar approaches. This document examines the reality of what has been done on PSIA in the context of the principles of national ownership and civil society participation agreed in recent years.

### What is PSIA?

PSIA involves examining the likely poverty and social consequences of a reform on different groups in society, particularly focusing on the poorest and most vulnerable. PSIA should be carried out before a reform is agreed and can also be used to monitor and evaluate impacts during and after reform implementation. In a nutshell PSIA should clarify the likely outcomes of different policy choices to enable more open and informed decision-making that is driven and controlled by national policy-makers.

The tools that underpin this approach are not in themselves anything new, having been much used for poverty analysis of projects and programmes for many years. What is new is how this approach is applied to looking at the potential impacts of policy reforms rather than static snapshots of poverty situations. What is also new is the expressed commitment for analysis to support the principles of country ownership and participation surrounding the PRS process.

### PSIA and other Analytic Work at the World Bank

Economic and Sector Work (ESW) at the World Bank is “an activity that involves analytic effort, is undertaken with the purpose of influencing an external client’s policies, and is owned by a Bank unit.”<sup>4</sup> Core diagnostic ESW is the work that is considered essential in providing the analytical basis for Bank operations in any country, and includes Poverty Assessments, Public Expenditure Reviews and Country Economic Memoranda. Additional, or other, ESW includes work such as Institutional Reviews, Rural Development Assessments and Social Analyses.

Clearly, a good deal of PSIA would be considered ESW. In some cases, PSIA might feed into a larger piece of ESW. For example, the PSIA on agriculture in Zambia was reproduced as a chapter in Zambia’s Country Economic Memorandum. The PSIA on primary education reform in Mozambique itself was an ESW product.

Given the lack of public disclosure of PSIA at the World Bank to date there is a value for CSOs in PSIA being a formal ESW product, or a building block of one, as formal ESW is sent to the Executive Board and publicly disclosed. In many cases though, PSIA may only be considered a supporting piece of analysis for loan preparation or policy dialogue and thus may appear only as an annex to a programme document. An example of this would be the cotton PSIA for Mali.

<sup>4</sup> Quality Assurance Group (QAG), World Bank “Quality of ESW in FY02, A QAG Assessment” (1 April 2003) pg. 1.

“PSIA should clarify the likely outcomes of different policy choices to enable more open and informed decision-making that is driven and controlled by national policymakers.”

## What are donors doing to promote PSIA?<sup>5</sup>

“The World Bank funded 110 PSIA studies”

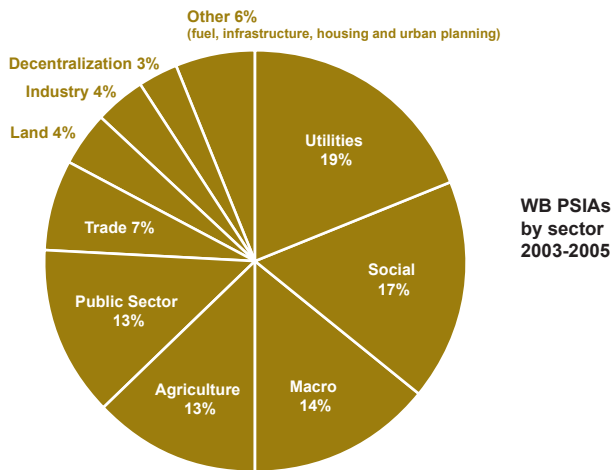
The World Bank has been the primary actor in carrying out PSIA. There is some difficulty in tracking how many PSIA have been done. This is because of the difficulties of distinguishing between PSIA and some other analysis carried out by the World Bank and because some studies that have been funded as PSIA in reality are not analyses of reform policies but rather are background sectoral studies. However the more conservative figures suggest that the World Bank funded 110 PSIA studies between 2003 and 2005 and will fund 29 studies in the 2006 financial year (July 2005-June 2006). Some of these studies have

been partially funded by bilaterals, chief amongst them the German Development Cooperation (BMZ) but also including the Norwegian and Belgian governments. The bill to date for these studies amounts to some US\$11million. PSIA within the World Bank is managed jointly by Poverty Reduction and Economic Management Network and the Social Development Group, which have been particularly active in developing methodological tools and resources for commissioners and practitioners of PSIA.<sup>6</sup>

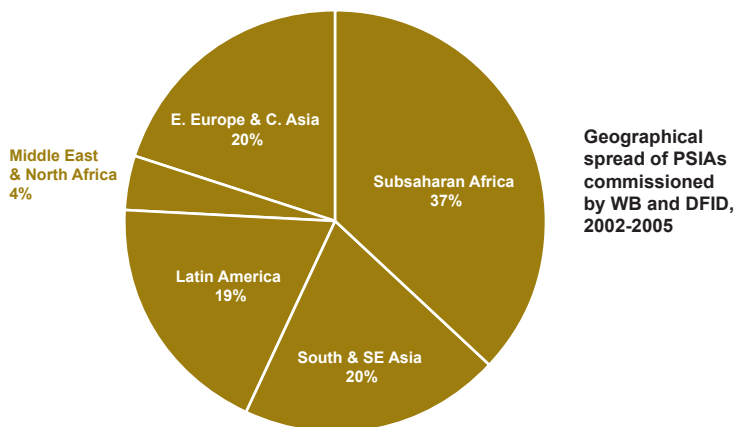
The IMF set up a PSIA team in September 2004. Its main purpose is to mainstream the use of PSIA across IMF area departments. They have not funded any PSIA studies per se but have selected 10 countries on which to focus their work in an attempt to mainstream PSIA within the IMF. These countries are: Bolivia, Ghana, Jordan, Tajikistan, Senegal, Mali, Bosnia, Uganda and Djibouti.

The UK Department for International Development (DFID) and the German Development Cooperation (BMZ- GTZ) are the two bilateral donors most actively involved in carrying out PSIA directly. DFID funded and commissioned seven pilot PSIA studies between 2002 and 2003<sup>7</sup> and have funded and co-produced the recently launched Tools for Institutional, Social and Political Analysis with the World Bank<sup>8</sup>. In addition they plan to fund a political economist to support the IMF PSIA team. BMZ- GTZ have set up a PSIA trust fund within the World Bank that finances selected studies, two secondments to the Social Development Group of the Bank and some dissemination activities.

Graph 1: Sector focus of World Bank PSIA



Graph 2: Where have PSIAs been done?



## What principles have donors committed to?

In November 2003, the World Bank, IMF and bilateral donors held a conference in the Netherlands and agreed a framework of good principles for carrying out PSIA (The North Sea Manifesto, 2003). In addition the World Bank has laid out principles in its PSIA User's Guide and developed a **Good Practice Note**. DFID in turn has produced its own **Principles for Good practice** note which focuses on ensuring that PSIA contributes to "open(ing) up opportunities for more inclusive policy development processes" (DFID, 2005). In all of these instances there are some core issues to which donors have committed themselves. These include:

- PSIA should be **country-owned and led**
- There should be broad **stakeholder** engagement and **transparency**
- **Capacity building** should be an integral aspect
- There should be proactive **dissemination** of results
- Analysis should be carried out **prior** to any course of reform being decided
- Analysis should consider **policy alternatives**
- Analysis should be **multidimensional** and **multidisciplinary**

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## 3 Policy reforms – informed by what?

**"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."**  
(DFID, 2005)

**"Country ownership is the guiding principle. The process and content (of PRSPs) must be designed nationally to suit local circumstances and capacities, and should be useful to the country, not only external donors."**  
(Klugman, quoted in Stewart and Wang, 2003: 2)

'One-size-fits-all' blueprint policies that focus on macroeconomic benefits without considering how poor people will be affected by reforms, have largely been discredited. It has been recognised that policymaking is more likely to be successful in attacking poverty if it is informed by county-specific evidence. On this basis different policy alternatives that take into account the social, political and

In the following sections this report will examine how well the World Bank and the IMF have lived up to these principles by looking at the process of how PSIA has been carried out and its impact on broadening evidence and public debate around policy options.

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**"Opportunities for more inclusive policy development processes"**

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institutional consequences of reforms may be explored prior to reform implementation. This approach to policy-making requires a more multidisciplinary method. And to be useful for policymakers, analysis needs to be done in a timely manner. This section will examine to what extent alternative policy options have been considered in the cases that we have examined; whether research has been carried out in time to feed into policy discussions; and to what extent research has contributed to a more multidimensional understanding of reform, taking into account the social and political context.

### **Policy options or predetermined reforms**

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**"They (the IFIs) seldom link analysis with conclusions regarding policy alternatives and proposals"** (OED Annual Review of Development Effectiveness, 2004)