



INTERNATIONAL MONETARY FUND FACTSHEET

Poverty and Social Impact Analysis of Economic Policies

The process of preparing Poverty Reduction Strategy Papers (PRSPs) in low-income countries has given prominence to the need to understand the impact of public policies on social and poverty outcomes. The goals of PSIA are (i) to provide a basis for considering policy options and appropriate sequencing of policies, and (ii) to include offsetting measures into the reform program when negative consequences are unavoidable.

The aim of poverty and social impact analysis (PSIA)

PSIA assesses the consequences of policy interventions—before, during, and after—on the well-being of different social groups, with a special focus on the vulnerable and the poor. PSIA focuses on the distributional impact of policies across social groups, based on such factors as gender, ethnicity, age, land ownership, livelihood, and geographic location.

PSIA would ideally be based on a comprehensive analysis of policies and public actions (like public spending programs), including direct and indirect effects. In practice, because of data and other limitations, a more limited analysis of the immediate social impact of alternative policies may have to be utilized. Macroeconomic policies that could be subject to PSIA would include exchange rate adjustments and specific expenditure and revenue measures. Structural and sectoral reforms and policies that could be considered would include policies related to international trade, domestic prices, financial markets, civil service reform, legal reform, privatization, and sectoral reforms.

Implementing PSIA

The PRSP process calls for the formulation of economic and social policies through informed diagnosis and national dialogue. In this context, PSIA should be firmly anchored in the PRSP process. Countries themselves have the primary responsibility for conducting PSIA. The quality of PSIA benefits from participatory processes for data gathering, analysis, and consideration of public policy choices.

In the short run, PSIA faces three major challenges—methodological, paucity and quality of data, and capacity in countries. Methodologically, more work is needed to develop quantitative models, adapted to country specific circumstances and to develop instruments that capture the non-income dimensions of poverty and well-being. The absence of comparable data in many countries, such as those in sub-Saharan Africa, affects the quality of PSIA, which needs to be adapted to make best use of existing data.

In many countries, the capacity to undertake PSIA is weak. For example, in many low-income countries there is limited human resource capacity to analyze household survey data or to undertake qualitative analyses. Some countries may therefore require considerable external assistance with PSIA during a transition period. Over time, strengthening of national capacity is critical for country ownership of all dimensions of PSIA, including policy analysis and evaluation.

Modalities for implementation

Given limited capacity in many countries, PSIA must be undertaken selectively. Priority should be given to analyzing policies with a potentially significant short term impact; these policies should be selected by countries in consultation with relevant stakeholders, including the Bank and Fund. PSIA should also inform the appropriate mix and sequencing of this set of policies and public actions.

Tools and techniques are being refined to better undertake macroeconomic and other dimensions of PSIA. A number of different modeling approaches have been developed by the World Bank and others. Some of these techniques have been implemented, in collaboration with local counterparts, in a number of countries. Qualitative approaches to PSIA are being increasingly utilized, including in Bank projects.

Countries are being encouraged to strengthen national systems for data collection and their capacity to undertake PSIA over the longer term. The Bank and the Fund both provide substantial technical assistance for statistical strengthening in close coordination with other development partners.

The role of the IMF in PSIA

Both the World Bank and the IMF play important roles in supporting countries in the development, implementation, and monitoring of poverty reduction strategies, including supporting country PSIA as part of a national PRSP process. Contributing to PSIA is an important component of Bank support to the PRSP process. The Bank takes the technical lead in assessing and, if needed, carrying out PSIA in Bank-Fund assisted programs. In addition, the Bank and the Fund also play a role in assessing the impact of policies and public actions that they support through their lending.

The Bank and the Fund also support the development of national capacity for PSIA, including systems for monitoring and evaluation. In the short-term, through its analytical program, the Bank contributes directly to countries' undertaking of the PSIA of policies and programs as needed.

PSIA is reflected in Bank and Fund operations. The Fund remains committed to making PSIA a feature of Fund-supported concessional lending. When specific policies are expected to have adverse effects on the poor, these effects are considered, and where appropriate, countervailing measures are built into the programs. The Fund has always relied, in the first instance, on PSIA done by the World Bank and other institutions to build PSIA into its program advice. As part of refocusing in a reduced budget environment, the Fund will have more limited capacity for original PSIA work. Nevertheless, area department teams will continue to address concerns about poverty and social impacts in their policy advice. PSIA is also a key feature of the World Bank's analytical work, and informs the development of the Bank's Country Assistance Strategies (CASs) and underpins Development Policy Lending Operations (DPLs).