WP/03/43

IMF Working Paper

Poverty and Social Impact Analysis—Linking Macroeconomic Policies to Poverty Outcomes: Summary of Early Experiences

Caroline M. Robb

INTERNATIONAL MONETARY FUND

 WP/03/43

IMF Working Paper

African Department

Poverty and Social Impact Analysis—Linking Macroeconomic Policies to Poverty Outcomes: Summary of Early Experiences

Prepared by Caroline M. Robb[1]

Authorized for distribution by Amor Tahari

February 2003

Abstract

The objective of this paper is to present some early experiences of poverty and social impact analysis (PSIA) from the PRGF-supported programs in the African Department. The paper illustrates that many staff country reports have taken a first step toward PSIA by making more explicit the links between poverty and policies. Various examples highlight that even though relationships can be complex and analysis, as a result, may not be definitive, it is possible to assess some of the potential poverty effects even in countries with limited data, and therefore contribute to a more informed policy debate and design. The paper concludes that PSIA can help design policies that are more pro-poor, better define compensatory and complementary measures where appropriate, and support country ownership of reforms by promoting a public debate on trade-offs between policy choices. In light of this, the paper suggests that PRGF policy advice would benefit from more systematic PSIA and that staff country reports could report more on the potential policy trade-offs and poverty outcomes based on PSIA.

JEL Classification Numbers: E61, I30, I32, O55

Keywords: Macroeconomic policies, poverty, Africa

Author's E-Mail Address: crobb@imf.org

[1] I would like to thank Brian Ames, Geoffrey Bannister, Anupam Basu, Hugh Bredenkamp, José Fajgenbaum, Elliott Harris, Robin Kibuka, Damoni Kitabire, Harinder Malothra, Amor Tahari, and Mario Zejan (IMF); Aline Coudouel, John Page, Stefano Paternostro, and Sharon White (World Bank); Paul Francis (University of East Anglia); Oxfam UK; Tony Burden (UK Treasury); Jeff Saussier (World Learning); and Lucia Hanmer and Barbara Hendrie (Department for International Development) for their very helpful comments.

Contents

Page

Contents Page

Appendices

Appendix Boxes

Appendix Tables

I. Introduction

Although some have argued that the IMF should not be concerned with poverty since macroeconomic stabilization is good for everyone, this narrow view is now being challenged. When asked in April 2001 why the IMF should be interested in poverty, Stanley Fischer, then the Fund's First Deputy Managing Director, gave four clear reasons: (1) we lend mainly to countries where poverty is an overriding problem; (2) IMF policy advice (for example, on fiscal spending, taxation, and inflation) affects poor people in different ways; (3) policies will not be politically sustainable unless they are equitable; and (4) there is a moral argument for the IMF to address poverty.[2]

Macroeconomic policies affect existing distributive relations and institutional structures and, as such, have poverty and social outcomes. The objective of this paper is to present some early experiences of poverty and social impact analysis (PSIA) from the Poverty Reduction and Growth Facility (PRGF)-supported programs worked on by the IMF's African Department. Case studies from other institutions are presented to help highlight how PSIA could be relevant for future PRGF-supported programs. Section II presents the historical background to PSIA. Section III then defines PSIA and explains its key objectives. Some of the analytical challenges and complexities of PSIA are discussed. Highlighting that there is no one approach to understanding the poverty and social impact of macroeconomic and structural policies, Section III defines four different broad levels of poverty links to policies, based upon the complexity of analysis: (1) simple explanation of the logic behind the IMF-supported program and its links to poverty using economic rationale and country knowledge (as a first step toward PSIA), (2) use of existing data to make some poverty links, (3) specific research to analyze the effects of policy change, and (4) economic models.

Section IV lays out some of the possible trade-offs and transmission mechanisms by policy/reform. It then provides examples from PRGF staff reports where the rationale underlying the IMF staff's view on how macroeconomic policies may affect poor people positively or negatively, as a first step toward PSIA, is explained. The case examples illustrate that although there are still many gaps in our understanding of the relationship between policies and poverty, it is possible to assess some of the potential effects on poverty even in countries with limited data and therefore contribute to a more informed policy debate and design. Finally, the section highlights areas of follow-up, recognizing the need for further analysis in staff reports.

The paper concludes, in Section V, that it is important to make poverty and social outcomes of macroeconomic policies, as well as the trade-offs, more explicit, since integrating poverty goals with other goals consists of more than adding poverty and social policies to a predesigned sound macroeconomic framework.[3] Further, it concludes that PSIA can help design more pro-poor policies, better define appropriate compensatory and complementary measures where appropriate, and support

---

[2] Workshop and Panel on Macroeconomics Policies and Poverty Reduction, April 12–13, 2001, IMF, Washington. Details are posted on the web at *http://www.imf.org/external/np/res/seminars/2001/poverty/index.htm.*

[3] See Elson and Cagatay (2000).

country ownership of reforms by promoting an ongoing public debate on trade-offs between policy choices.

II. BACKGROUND

The effects of economic reforms on inequality and poverty are a key issue today. Both the IMF and the World Bank are seeking to ensure that their own operational instruments of support for economic reform contribute to poverty reduction. A new element in this ongoing process is the integration of PSIA into the design of reform programs supported by the Fund and Bank operational instruments.

The importance of improving understanding of the effects on poverty of macroeconomic and structural policies has been recognized for some time and extensive research already exists. As far back as 1985, Cernea promoted a shift in conventional development thinking by stressing that development was about people, social organizations, and their knowledge and institutions as opposed to simply commodities and technologies. In 1987, UNICEF published, *Adjustment with a Human Face*, and the donors established the Social Dimensions of Adjustment (SDA) program (1987–92), where the social impact of adjustment policies was clearly highlighted.[4]

In 1998, a group of independent experts conducted a review of the Enhanced Structural Adjustment Facility (ESAF) and concluded that IMF-supported programs should focus more attention on analysis of policy sequencing at the time of program design; identify the social impact of policies during program design and monitor their impact on vulnerable groups during policy implementation; and track social spending in a more systematic way (IMF, 1998). The report concluded that it was possible to identify the distributional of IMF programs ex ante.

In September 1999, the objectives of the IMF's concessional lending were broadened to include an explicit focus on poverty reduction in the context of a growth-oriented strategy. To reflect this broader objective, the PRGF replaced the ESAF. Since 1999, low-income countries have been preparing their own poverty reduction strategy papers (PRSPs), relying on broad-based participatory processes of dialogue with representatives of civil society and the donor community. The targets and policies embodied in PRGF-supported programs are expected to be derived from the country's own poverty reduction strategy (PRS).[5]

[4] See also Moser, 1996, for a groundbreaking study on the impacts of adjustment policies and economic crises (for example, high inflation rates and changes in prices, wages, public spending and the labor market), in four urban communities, complementing rich qualitative community level data with panel quantitative surveys. See World Bank (1993) for an assessment of the SDA.

[5] In practice, in many countries to date, the PRGF-supported programs were designed before the PRS was formulated. Further, the IMF only supports the underlying policies of PRSPs if they are compatible with sound macroeconomic and growth objectives. However, within this context there is still much flexibility in policy choices. This flexibility could be part of a public debate and contribute to the next round of PRSPs and the PRGF.

In August 2000, the IMF identified seven key features (see Box 1) of PRGF-supported programs, one of which was the analysis of the impact on poor people of major macroeconomic adjustments and structural reforms in Fund-supported programs.[6]

Box 1. Key Features of PRGF-Supported Programs

- Broad participation and greater ownership
- Embedding the PRGF in the overall strategy for growth and poverty reduction
- Budgets that are more pro-poor and pro-growth
- Ensuring appropriate flexibility in fiscal targets
- More selective structural conditionality
- Emphasis on measures to improve public resource management/accountability
- Social analysis of major macroeconomic adjustments and structural reforms

Source: IMF (2000).

In September 2001, the IMF and World Bank Executive Board paper on the "Poverty Reduction Strategy Papers – Progress in Implementation"[7] and subsequent PRSP Progress Reports, recommended **that the World Bank should take the lead in the development of poverty and social impact analysis (PSIA), in order to provide such an input to its own instruments, particularly for poverty reduction strategy credits (PRSCs), as well as to partner countries' PRSPs**. The IMF's role should be more limited but still significant. For example, PRGF reports should include a description of the availability of PSIA studies that are relevant to the PRGF-supported programs; staff's discussions with authorities of the impact of key reform measures; and the ways in which poverty implications have affected policy choices and the design of any countervailing measures. The *Review of the PRGF Facility: Issues and Options* (IMF, 2002a) and the *Review of the PRSP Approach: Main Findings* (IMF, 2002b) both stressed the importance of a more systematic approach to PSIA and to the development of alternative policy scenarios. In addition, the April 2002 Communiqué of the International Monetary and Financial Committee stated that PSIA should be used more systematically in PRGF-supported programs.

Other institutions have also stressed the importance of analyzing the poverty and social effects of reforms. For example, Her Majesty's Treasury/Department for International Development, United Kingdom, in its submission for the IMF PRGF Review in December 2001, recommended that: the discussion of PSIA take place in a PSIA "box" in staff reports and then run throughout the document where appropriate; the Fund and the World Bank take a pragmatic approach to ensure past lessons are acted upon while more sophisticated methodologies are developed; and the Fund provide a timetable for PSIA in all PRGFs for 2002-03, working with governments to identify in advance key reforms. Oxfam (2002a) add that the donor should carry out PSIA directly, or by governments and/or civil society with donor support, and that any major policy reform should be openly debated and more than one option entertained.

---

[6] See *http://www.imf.org/external/np/prgf/2000/eng/key.htm* for details of the "Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs," prepared by the Policy Development and Review Department, IMF.

[7] This paper is available on the web at ***http://www.imf.org/external/np/prsp/2001/091401.htm.***

In 2001, the World Bank and the IMF undertook a review of PSIA in twelve PRSP countries.[8] Following this, the Bank is now undertaking PSIA in six case example countries including Chad (cotton sector); Malawi (agriculture marketing board reform); Kyrgyz Republic (electricity sector reform); Guyana (reform of bauxite, sugar, and water sectors) Mongolia (cashmere and energy tariff reform); and Pakistan (energy tariff reform). In addition, DFID is piloting PSIAs in five countries: Mozambique (petroleum taxes); Uganda (trade diversification); Rwanda (fiscal policy); Armenia (water pricing), and Honduras (electricity privatization). Recently, the World Bank has completed a very useful draft publication, "A User's Guide to Poverty and Social Impact Analysis."[9]

A. Definition of Poverty Outcomes

What is poverty? Policy analysis in the past was focused on a classic statistical approach to poverty based on indicators of income, health, and education; poverty itself was measured by an income-based poverty line derived from traditional household surveys. Studies show that an approach dominated by economic analysis fails to capture the many dimensions of poverty, while a multidisciplinary approach can deepen our understanding of the lives of the poor.[10] Direct consultations with poor people have revealed that vulnerability, physical and social isolation, insecurity, lack of self-respect, lack of access to information, a distrust of state institutions, and powerlessness can be as important to the poor as low income.[11] Further, the poor are not a static group – people fall in and out of poverty depending on their vulnerability. Maximizing incomes may be less of a priority to poor people than increasing the security of their livelihoods and decreasing vulnerability (Chambers, 1983). Livelihoods are sustainable when they are resilient to shocks and may be enhanced without undermining the natural resource base (Kanji and Ware, 2002).

Poverty outcomes. The main challenge is to achieve higher growth and poverty reduction, while setting realistic goals and targets. IMF-supported policies therefore should contribute toward the delivery of the poverty outcomes defined by the Millennium Development Goals (MDGs) (for example, literacy

[8] The review found that in all countries there were data, capacity, time, and analytical constraints. The analytical and methodological constraints included how to consider the counterfactual; develop simple models, given the data constraints; and better combine different data sources for measuring the impact of poverty. However, the review also found that although there were constraints, more could have been done with the existing data sources. Further, in most of the countries, both the Bank and the Fund teams had often considered the poverty implications of their policy advice but these considerations were not always made explicit in staff reports and project documents. For a summary of the review see, IMF and World Bank, 2001, pp 10 – 13, "Poverty and Social Impact Analysis," at *http://www.imf.org/external/np/prsp/2001/091401.htm.*

[9] Available on the web at *http://www.worldbank.org/poverty/psia/index.htm.*

[10] See Robb (2002).

[11] World Bank (2001) advances a three-pillar framework for analyzing poverty: opportunity, empowerment, and security. Macroeconomic and structural policies are folded into the first of these and governance issues into the second.

and mortality rates),[12] as well as to other poverty outcomes defined by the countries through a process of consultation, such as greater security, decreased corruption, and increased access to information and decision making.[13] Further, it is important to look beyond general and aggregated economic indicators. For example, instead of measuring GDP growth alone, the growth rate of the agricultural sector or specific crop estimates should be highlighted, and, instead of measuring a general inflation rate, data on price movements, including interest rates that particularly affect the poor, should also be used (Booth and Lucas, 2001).

III. What Is PSIA?

A. Definition and Objectives of PSIA

Poverty and social impact analysis (PSIA) is defined as the analysis of the positive and negative distributional and poverty impact of policy change on the well-being of different groups in society, with a focus on the poor and vulnerable.[14]

The objective of PSIA is to support country ownership of policies by informing a public debate on the most appropriate policy combination for growth and poverty reduction and the trade-offs between policy choices; assess the appropriateness, timing, and sequencing of reforms; and better define appropriate compensatory and complementary measures if appropriate.

PSIA can be undertaken ex ante, during implementation, and ex post and can be considered as good practice policymaking by: making assumptions more explicit upfront (ex ante PSIA); monitoring whether or not public actions/choices are working, thereby testing original assumptions and taking midcourse changes if public actions are not succeeding (PSIA during policy implementation); and assessing whether public actions were successful and using the information to influence future policy design (ex post PSIA).

The relationships between policy change and poverty outcomes are not easily understood. Indeed, many observers still disagree on the impact of macroeconomic policies on the poor and what methods and tools should be used to assess the impact (Gunter, 2002). In general, there has been more research on the impact of adjustment policies (e.g., liberalization and privatization) on the poor than macroeconomic policies (e.g., exchange rate adjustments, and size of fiscal deficits).

---

[12] The MDGs include the proportion of people living in extreme poverty in developing countries to be reduced by at least one-half by 2015; gender disparities in primary and secondary education to be eliminated by 2005; infant and child mortality to be reduced by two-thirds of the 1990 level by 2015; maternal mortality to be reduced by three-fourths between 1990 and 2015; access to reproductive health services to be made available to all individuals of appropriate age no later than 2015; and a national strategy for sustainable development to be implemented in every country by 2005.

[13] At the country level, the MDGs need to be modified to reflect national economic, social, cultural, and historical circumstances, as well as the participatory process through which policy objectives, indicators, and goals are agreed.

[14] See also World Bank (2002, p.2).

Thus, the link between poverty analysis and policy choices and change has been weak in the past, with the consequence that the poverty impact of policies are not always known, not discussed in detail by policymakers when considering policy choices, and not debated in public. However, although it is not possible to be definitive, sufficient tools and methods do exist to undertake some form of PSIA for a wide set of reforms and country circumstances. Such PSIA can lead toward a better understanding of the **possible** impact of key selected policies. Disagreements can be highlighted in order to contribute to more open and evidence-based policymaking.

PSIA can utilize a collection of tools and techniques from a wide range of social sciences that include social/environmental tools (e.g., Participatory Poverty Assessments, social impact analysis, village-based studies, gender analysis, social capital assessment, willingness to pay for studies); economic tools (e.g., benefit incidence analysis, poverty mapping, public expenditure tracking), partial equilibrium tools (multimarket models) and general equilibrium tools, such as the Computable General Equilibrium (CGE) model and Social Accounting Matrix (see Appendix I).

A lack of data has sometimes been used as a reason for not linking poverty outcomes to policy decisions. It is certainly true that many African countries do not have data of the quality needed to construct a general equilibrium model. Further, the effects of many policies are complex and multidimensional, and the relationships are not fully understood by economists or sociologists. However, in most countries there is an untapped potential of information, knowledge, and data. Further, policy advice and policy choices are **now** being made and have been made in the past based on existing, albeit fragmented information. This situation can be improved by undertaking PSIA in which existing data sources on poverty are used more effectively and linked to policy discussions using various tools and methods. The case examples in this paper highlight the fact that although the analysis is complex, **even in countries with limited data it is possible to assess some of the potential poverty impact and, therefore, contribute to a more informed policy debate.**

A lack of capacity is also cited as a reason for not undertaking PSIA before a reform or policy is implemented. It is true that many countries and donors do not have the capacity to undertake complex, expensive long term analysis. However, in the short term, the key is asking the right research question that is conducive to the existing capacity.

PSIA can help policymakers make decisions about the **design, sequencing, timing, or desirability/appropriateness** of proposed reforms. At the design stage, it is possible, in a preliminary way, to identify groups that will be affected and the extent those groups are poor. This is important to do up-front to ensure that action – changing the design, sequencing, or even not going ahead with the proposed reform – can be taken early on. Further, social safety nets are often weak, are not clearly targeted, reach only a small percentage of the potential target group, and may be used as political tools (see Barden, 1997; and Subbarao et al., 1997). PSIA can help design more appropriate policies that may reduce the need for safety nets or increase the effectiveness and efficiency of their targeting.

In the broadest sense, PSIA involves the following inputs (not sequential and ideally iterative): a process of ongoing dialogue and public debate (see Appendix II); identification of stakeholders; understanding of the political and institutional context (including markets, public and private organizations, institutional capacity, and incentives for implementing reforms); identification of the right research question; selection of tools; analysis; risk assessment; selection of appropriate policies; building on an established monitoring and evaluation system for ongoing policy adjustment and post-policy evaluation (see Box 2 and World Bank (2002, p. 11) for the PSIA "road map").

Box 2. When Should PSIA Be Undertaken?

Below are some suggestions of the type of PSIA that may be relevant at different stages of the policy cycle[1/]. However, to be realistic, in most countries, it is not possible at this moment to undertake PSIA at all stages of the cycle since country capacity is limited; time frames may be tight; donor commitment is still being developed; and some analysis can be complex.

However, PSIA can feed into the policy dialogue and be relevant at any stage. Even simple ex ante analysis can contribute to the policy debate. In the longer term, PSIA can become part of governments' ongoing policy decision making and monitoring and evaluation. In the meantime, **it will be important for countries to be selective while donors should support their efforts.**

Possible analysis at the design stage:
- Stakeholder analysis to identify, ex ante, groups that will be affected by the policy, and those groups that will affect/influence policy design.
- Ex ante analysis of the potential impact of a proposed reform (how groups will be affected), including making explicit assumptions and logic behind the program.
- Analysis of relevant affected institutions (markets, and public and private organizations).
- Discussion can take place on how the sequencing of policies can help mitigate unintentional adverse effects of policies; alternative policies based on potential impact; and complementary measures if necessary.
- Proposals for mitigating measures if necessary, such as subsidization to protect the poor and safety nets.
- Assessment of potential risks, made explicit, if possible.
- Description/establishment of an evaluation framework building on existing monitoring systems where possible.

Possible analysis during implementation:
- Track poverty impact of policy change since not all effects can be captured in ex ante analysis and assess to what extent assumptions were realistic.
- Amend policy if necessary during implementation.

Possible post reform/policy implementation:
- Evaluate impact.
- Feed information into policymaking processes in order to enable policymakers to understand better the potential effects of future reforms.

[1/] See also the World Bank (2002, p.11) for a detailed description of a "road map" for PSIA.

As a first step toward PSIA, IMF teams can undertake simple ex ante analyses of key reforms by making explicit both the assumptions behind the program and the possible links to poverty, using economic logic and informed assessments (based, for example, on country knowledge and impact analysis of past reforms). This is an important step toward promoting a clearer dialogue on macroeconomic choices. Over time, to support the government, analyses that are more detailed can be undertaken by utilizing existing data from a variety of sources and new data, if necessary, to **better understand diversity by disaggregating the impact - along economic, ethnic, gender, generation, spatial, and livelihood lines - in country contexts**. Such analyses can be undertaken by different institutions (government, nongovernmental organizations, academic bodies, research tanks, and donors) – all of which can contribute to more open public debate.[15] In the longer term, PSIA can be undertaken before, during, and after policy implementation. Further, policy impacts on the environment are also important for poor people in terms of their health and livelihood sustainability.

[15] No research is independent – the key is to be aware of and take into consideration the biases of institutions undertaking PSIA.

Public debate about macroeconomic reforms can help identify the most appropriate policy combination to promote growth and reduce poverty. As far as politically feasible, PSIA should be conducted in an open, transparent manner. In addition, **PSIA should be part of countries' ongoing public policy dialogue and monitoring and evaluation system** (such as those established for poverty monitoring, the budget process, and PRS implementation). The objectives of public participation in national level policymaking are to promote a public debate around national policies, strengthen political participation, and support good governance and transparency.

Many factors affect policymakers' decisions to create, sustain, alter, or reverse policies. Rules, legislation, traditions, networks, ethnic alliances, patronage, political allegiances, donor influence, technical advice, and bureaucratic structures all interact to form a complex and fluctuating policy environment (Robb, 2002). In addition, individual survival in an institution, institutional survival in a government, and the maintenance of a regime within a country can also affect policy choice (Grindle and Thomas, 1991). Policymaking decisions are often a negotiation between groups of unequal power and influence – the poorest people usually having the least power to influence. However, an understanding of the unequal underlying power relations can lead to a better understanding of how such relations affect policy choices and are affected by policies.

Therefore, **PSIA must consider the impact of reforms on other groups beyond the poor.** This can lead to a better understanding of, a) how groups are affected by policies and, b) why groups may wish to influence/block certain policy decisions. In some circumstances, powerful, rich groups may be negatively affected by a policy change and use their influence to block the policy. For example, the removal of protection of certain industries may negatively affect big businesses and union interests. Although all policy decisions are ultimately political in nature, evidence-based policymaking can contribute towards a more informed public debate.

B. Concepts, Data, and Analysis for PSIA

Conceptual structure: Understanding the differential impact on social and economic groups

Cashin and others (2001) identify four main channels through which Fund-supported programs could have a positive poverty and distributional impact: falls in inflation rates; currency devaluation (lowering the price of nontradables relative to tradables); increases in growth rates; and shrinking of fiscal imbalances. In addition to this, market-based interest rates, shifts in the structure of taxation, and the composition of expenditure can also affect various socioeconomic groups of people, as detailed in subsection C.

All macroeconomic policies affect existing distributive relations and institutional structures and as such, all macroeconomic policies have poverty and social outcomes. An understanding of diversity and countries' social context is required to link policies to the endogenous social practices, beliefs, and incentives that will sustain them. This means taking into account such variables as social and cultural organization (Cernea, 1996). This undertaking adds complexity to the analysis but is fundamental to PSIA as the examples below show:

(a) Gender. In most African countries, women are the agricultural producers; carers of children, elderly, and the sick; domestic workers; preparers of food; managers of the household budget; and community managers (see Moser, 1990). However, much of women's work is unremunerated with more of women's work than men's left out of national accounts. This is due mainly to the nature of their work, which is outside the formal labor market and based mainly in subsistence production, informal employment, domestic or reproductive work, and voluntary or community work (Blackden and Bhanu, 1999). Some macroeconomic policies and reforms may mean that women have to work longer and harder. However, this cost may not be visible since it is unpaid time. However, as Elson (1989) points out, the cost will be revealed in statistics on the health and nutritional standards of women and children.

(b) **Ethnicity.** Some reforms could intensify regional and ethnic conflicts. For example, in **Nigeria**, the intensification of ethnic tensions and conflicts is dependent on the extent adjustment measures reinforced existing social, economic, and political inequalities or create new ones (Osahae, 1995, cited in Mohan, 2000).

(c) **Livelihood strategy.** The importance of disaggregating by livelihood strategy is emerging from the DFID-supported **Mozambique** study on petroleum price changes. In addition to the general effects on purchasing power of the poor (due to price rises) the study also found that particular **livelihood groups,** including artisanal fishing communities and low-paid casual laborers who rely heavily on commercial transport, are likely to be affected. This is important in terms of the development of complementary or mitigating policies that can target specific groups likely to face increased vulnerability in the shorter term.

Data - integrating different disciplines for PSIA

As stated above there is no one single standard tool or technique for PSIA. The selection of tools/methods may vary depending on the:

- research question being asked;
- existing knowledge/data; nature of the reform(s);
- resources, capacity (donor and country) and time;
- level of analysis (macro/micro); and
- scope of analysis (one reform or more reforms).

Effective PSIA can select various methods and tool, (e.g., modeling, and quantitative analysis, and qualitative analysis), all of which require the combined skills of various disciplines (e.g., macroeconomics, microeconomics, social and environmental development, and political analysis). It is now widely recognized that for better poverty analysis, tools and methods from different disciplines should be integrated. In the past, poverty analysis was dominated by quantitative data derived from nationally representative household surveys. More recently, qualitative methods (a sub-set is participatory research, including Participatory Poverty Assessments [PPAs]) have been used to contribute toward a more multidimensional definition of poverty. Booth and others (1998) make a distinction between contextual methods (for example, qualitative analysis) that aim to capture social phenomena within their social, cultural, economic, and political context, and noncontextual methods (for example, household surveys) that are designed to collect information untainted by the context.

Woolcock (2001) argues that social science data is always partial – an imperfect reflection of a more complex reality. As a result, it is important to be realistic and selective and to let key questions drive the choice of methods and tools, not vice versa. He adds that the extent the method yields fruitful answers to questions asked is an indicator of its accuracy. Further, a technically accurate method can be inappropriate if it is not the best and/or most feasible way to answer a given question.

PSIA can use existing data from tried and tested approaches for measuring poverty such as household surveys, participating poverty assessments (PPAs), end-user surveys, administrative data, national statistics, and census. Data can be analyzed in various ways. For example, PSIA can use data from household surveys to develop more complex models, benefit incidence analysis can be disaggregated by social group to better understand the impact of budget allocations, and data from PPAs can highlight changes in the intrahousehold allocation of resources that may have occurred due to a reform measure, such as agricultural liberalization (see Appendix I for a description of various data collection and analytical techniques). Often, traditional household survey data and analysis can take too long, so other, more rapid surveys, such as PPAs and Core Welfare Indicator Questionnaires (CWIQ) may be more appropriate and able to produce hypotheses for further testing. For example, World Bank participatory survey data from **East Asia** during the crisis, in 1998, showed that there were severe poverty and social effects as well as financial effects (see Robb, 1998).

Qualitative methods obtain information about nonincome dimensions of poverty, including social and political processes and institutions. A key dimension of what qualitative/context-based investigation can yield, which economic analysis is not well-suited to provide, is knowledge about noneconomic processes that mediate group/individual control over resources. In the case of land, for example, economic analysis focuses on the market for land, whereas qualitative/context-based methods can. analyze the social processes that define access to and rights over land for particular groups Existing qualitative data can present a more disaggregated picture of ex post policy effects (see Box 3 below).

Box 3. Data on Policy Effects from Participatory Poverty Assessments

Uganda PPA
Revenue raising. PPA highlighted the fact that the local graduated tax was very regressive.
Governance and accountability. Poor people throughout Uganda stressed that corruption was a key factor in causing poverty. The government increased political accountability in response.

Mongolia PPA
Privatization. Changes in perceived levels of well-being analyzed for the period 1992–2000. New categories of both rich and poor people emerged in the early 1990s, given unequal access to gains from the early stages of privatizing state-owned assets, including livestock and urban houses. The gap between rich and poor was perceived to have widened even more markedly over 1995–2000. Those groups able to take advantage of new opportunities had access to information and had connections with local officials. Because of privatization, herders became more vulnerable to drought and harsh winters.

Liberalization. Liberalization of fuel prices led to geographical differences in prices, such as livestock products. People migrated more. This led to family splitting. In some areas, many children were forced into degrading or illegal activities due to increased poverty.

Vietnam PPA
Revenue raising. The PPA highlighted the regressiveness of the commune-level revenue-raising measures. In response to this data, the government is introducing new financial regulations.

Traditional household survey data can count, compare, and predict. The strength of qualitative data is not in counting but rather in seeking diversity; understanding hidden dimensions of poverty and processes by which people fall into and get out of poverty; and recognizing that behavior is difficult to predict, and comparisons, in a dynamic situation, are often not possible. Household surveys can provide information on the extent of poverty while qualitative data may provide explanations, shed light on complexities, and identify the priorities of the poor, thereby making possible new levels of analysis.

If conducted interactively, qualitative methods and household surveys will enhance each other by providing and testing hypotheses (see Table 1). For example, the results of a PPA conducted after the household survey will explain, challenge, reinforce, or shed new light on household survey data. The results of the household survey can also, of course, explain, challenge, or reinforce the PPA (see Carvalho and White, 1997; and Robb, 2002). Best practice is to combine data from different sources for policy analysis, as in **Uganda, Vietnam,** and **Mongolia.**[16]

Analysis

Various tools for analysis are described in Appendix I. This section focuses on economic models relevant to PSIA. It is not easy to establish a counterfactual, that is, the potential poverty level if a policy or a set of policies had not been implemented. Methods to establish the counterfactual in the adjustment literature fall roughly into three categories: (1) the before versus after (the counterfactual is the time period before adjustment); (2) the "with" versus the "without" (the counterfactual is a control regime); and (3) economic modeling.

Partial equilibrium analysis can look at the direct impact of a policy or measure on one market or sector. Partial equilibrium analysis has some value when different measures (e.g., cutting expenditures, raising taxes, or tightening monetary policy) are compared to assess the potential impact on poor people. While this analysis provides valuable insights, similar measures in different macroeconomic frameworks could give different results because of the way certain policies intersect/compensate with others. For instance, partial equilibrium analysis can look at the direct effect, (e.g., a change in coffee price on coffee farmers), whereas general equilibrium models can look at multiple net effects (e.g., the impact of a change in the exchange rate on the coffee market - the change may make it more or less attractive to go into coffee farming, depending on the impact on other sectors). Thus, the aim in the future (when capacity and data are available) is to move from comparing individual measures to understanding the impact of the program as a whole.

One modeling approach is the **Computable General Equilibrium (CGE) model**, a fully specified model of an economy that includes production sectors, factor markets, and institutions in addition to consumers. The CGE can be used to run policy simulations, against a base run (the counterfactual). The base run can model an external shock, e.g., a terms of trade shock, or an increase in world interest rates. Policy simulations produced by CGE models can compare the impact of alternative policies to counter the shock on, among other things, the distribution of income. CGE models can further specify different channels through which adjustment policies affect the distribution of income, including the change in factor payments (wages, rents, and profits) arising from changes in relative prices,

[16] See Government of Uganda, 1998; Turk, 2001; and Dulamdary, 2001.

reductions in real incomes through increases in the cost of living, and changes in the value of financial assets.

However, CGE models require detailed data; they are time consuming and complex; results are sensitive to the assumptions on which a particular model is based; and causality can be difficult to establish. To use and interpret a CGE model properly and to understand why the model produces particular results, it is important to distinguish the model's transmission mechanisms from other assumptions about the operation of the economy. In addition, while, in most cases, it is possible to anticipate the first-round impact of a policy change, second-round effects can be predicted only with decreasing certainty. Finally, the extent of policy relevance may be limited in poverty reduction terms since information from a CGE model tends to be aggregate, that is, showing shifts in relative prices and incomes between traded good and nontraded goods sectors.

Table 1. Integrating Datasets: Examples of Relevant Policy Messages Derived from Different Data Sources

Policy	**Data Source**	
	Household surveys	**Qualitative/Participatory data**
Agriculture reform in Zambia	Withdrawal of government purchasing arrangements for agricultural produce. In the absence of a market outlet, many households suffered losses of income. (One-third of the rural poor in Zambia live more than 20km from the nearest food market.) Between 1991and 1994, smallholder incomes are estimated to have fallen by one-third across the country as a whole, and by more in isolated rural areas.	In the Eastern Province, poor households were forced to enter into highly unequal barter arrangements with richer neighbors to earn small amounts of cash. Many reported withdrawing children from school in order to save the fees for essential food purchases.
Coffee liberalization in Uganda	Coffee producing households benefited from increased farm prices for their export crop. In Uganda poverty decreased from 56 percent (1992) to 35 percent (1999) and coffee liberalization contributed to this outcome.	Women did not benefit as much as men did from coffee liberalization. In Uganda, women are responsible for food crops (that are used often to feed the family) and men are responsible for cash crops. These sources of income are not pooled in the household but women are responsible for feeding the family and paying school and medical fees. In some cases, land was taken from food crop farming for coffee farming, thereby reducing women's control over household income. Men often spent their increased income from coffee sales on alcohol rather than feeding the family and paying for schooling.
Public expenditure in Uganda	The household data revealed that out of a nationally representative sample of the population, only 20 percent were using government health services when ill.	The Ugandan participatory poverty assessment project (UPPAP) ranking exercises revealed ill health as the number one cause of poverty identified by the poor. The UPPAP provided insights into why people are not using government health services (drug leakage, abuse of cost sharing, and the negative attitude of many health workers).
Governance in Uganda	The National Integrity Survey, 1998, revealed the extent of corruption in the country and the population's perspectives on corruption and service delivery, based on a nationally representative sample.	The UPPAP illustrated some of the dynamics of corruption, including lack of information, poor leadership, unaccountable leaders, and lack of voice of poor households in local democratic institutions.
Financial crisis in East Asia	Unemployment increased; the credit crunch; reduced access to and quality of social services.	Family cohesion weakened as migration increased; children were pulled out of school; young men turned to illegal activities; social capital eroded; conflict increased.

C. Types of Poverty Links in PRGF-Supported Programs

For simplification, the paper outlines four different types of impact analysis of PSIA: (1) a simple explanation of the economic rationale/logic and use of country knowledge **(as a first step toward PSIA)**; (2) the use of existing data to make some poverty links; (3) specific research to analyze impacts of policy change; and (4) economic models. The definition is based upon the complexity of the analysis. Some examples in staff reports include one or all of the above types. Each type of analysis can assist in providing more information to the policymaker for better-informed policy decisions and public debate.[17] In general, Fund teams have focused more on simple ex ante analysis of individual reforms, as a first step towards PSIA. Some Fund teams have also sought assistance from other organizations, including the World Bank.

Simple explanation of economic rationale/logic and use of country knowledge

This type of analysis can be seen as a first step towards PSIA. PRGF-supported programs include many policies that are based upon economic assumptions about the impact on the poor. Such assumptions may be simple, such as the importance of: maintaining low inflation since high inflation can negatively affect poor people; exempting goods that are consumed by poor people (such as rice) from value-added tax (VAT); liberalizing agriculture for the benefit of cash crop farmers in rural areas; devaluing a currency to increase a country's competitiveness; and introducing safety nets for those who lose in the short term. Making such assumptions more explicit in IMF staff reports can contribute to a better understanding of the IMF's policy advice. Some IMF staff reports have included this first step towards PSIA, for example, **Guinea, The Gambia, Mali, Senegal, Zambia,** and **Mozambique** (see Appendix III).

Use of existing data to make some poverty links

Analysis that is more detailed can use existing data sources, such as household surveys and qualitative and participatory assessments. For the IMF-supported program in **Ghana,** the World Bank assessed the ex ante impact on the poor of proposed price increases for petroleum, electricity, and VAT by using data from the 1998/89 Ghana Living Standards Survey. This was accompanied by policies to protect the poor (see below).

Specific research to analyze the impact of policy change

More detailed specific research can be undertaken to analyze the potential impact of a proposed reform. In **Chad,** the World Bank launched quantitative and qualitative surveys to evaluate the impact of the cotton sector reform on different groups in the sector. An ex ante qualitative poverty impact analysis of alternative policy scenarios will be conducted. An ex post quantitative evaluation based on the results

[17] Simply presenting to policymakers new information does not guarantee policy change. An understanding of the policymaking process and the political context of policy choice and policy change, as well as ownership of the information, is also important, as discussed in Appendix II.

of the qualitative analysis will soon be undertaken. These evaluations will focus on: (1) the share of the fiber-equivalent world cotton price earned by farmers; (2) the return to labor for cotton production; and (3) the share of the sector value added earned by farmers, their organizations, and local small enterprises. This study is being conducted in close collaboration with local counterparts, with the objective of building local capacity. An ex post PSIA is planned for the end of 2003. The outcome of the analysis can be relevant to future Fund policy advice.

It is also possible to add specific research questions to planned household surveys and participatory assessments to better understand and monitor the impact of reforms. Further, rapid assessments can provide valuable data on such impact in conflict countries or crisis countries.

Economic models[18]

Economic models measure economy-wide effects. Three classes of methods exist: partial equilibrium analysis, general equilibrium techniques, and macroeconomic frameworks linked to microeconomic models. All models tend to require detailed data; they are time-consuming and complex; and results are sensitive to the assumptions on which a particular model is based. However, results can be valuable when integrated with other data and can contribute to a more informed policy dialogue. In **Zambia**, the staff report used economic modeling to estimate the impact of HIV/AIDS on growth rates.

IV. Early Case Examples of Poverty Links in African Department PRGF-Supported Programs

Since 1999, PRGF staff reports have increasingly included sections on: (1) descriptions of poverty (see Appendix IV); and (2) possible links between the policies in the PRGF-supported program and poverty (see Table 2). This section first briefly lays out some of the possible trade-offs and transmission mechanisms by policy/reform. However, trade-offs will vary widely depending on the country, including the political context, and the debate should be broader than the consideration of individual policies to identify the most appropriate policy combination to promote growth and reduce poverty. Cashin and others (2001) present a useful overview of the research on macroeconomic policies and poverty reduction.[19]

The section then provides examples from IMF staff reports of the possible trade-offs between poverty goals and other goals, **as an important first step towards PSIA.** Finally, the section highlights areas of follow-up recognizing the need for further analysis in staff reports.[20]

[18] See the World Bank (2002) at *http://www.worldbank.org/poverty/psia/index.htm* for more details.

[19] Also see Stewart (1995) and Killick (1999).

[20] A key area, not included in this section, is that of corruption and its impact on poverty. Although many staff reports detail the importance of governance, the links to poverty are not extensively highlighted. Corruption reduces the amount and efficiency of public expenditure and it increases the cost of doing business for the private sector. The first effect reduces the resources available for poverty reduction and the second reduces the incentive to invest

Table 2. Links Between the PRGF-Supported Programs and Poverty: Examples From IMF Staff Reports

Country	Document	Policies Considered
		Simple explanation of the economic rationale/logic and use of existing country knowledge as a step toward PSIA
Gambia, The	Staff Report (July 2, 2001)	• Low inflation • Petroleum prices • Cross subsidies to kerosene • Microfinance
Guinea	Staff Report (April 18, 2001)	• Fiscal deficit • Inflation • Petroleum prices • Restructuring and privatization • Fiscal policy – larger overall deficit considered due to humanitarian expenditures
Ghana	Staff Report (June 14, 2001)	• Fiscal policy - VAT • Petroleum and utility prices • Civil service/ minimum wage increase
Malawi	Staff Report (Dec. 11, 2000)	• Growth • Public expenditures • Private sector development • Social safety nets
Mozambique	Staff Report (September 6, 2001)	• Growth • Limit inflation • Tighten monetary policy • HIPC expenditures • Bank restructuring
Senegal	Staff Report (August 31, 2001)	• Privatization of state-owned electricity company • Fiscal policy – VAT
	Selected Issues paper (August 30, 2001)	• Restructuring and liberalization of the groundnut sector • Privatization of state-owned electricity company • Fiscal policy – VAT
	Staff Report (January 31, 2001)	• Fiscal policy – VAT • Reallocating resources to priority sectors • Pension reform • Structural reform

and, therefore, the potential for growth. Corruption can also increase transaction costs that are often not captured in policymaking. For example, electricity privatization may aim to increase poor people's access through an official price structure. However, poor people may be forced to pay bribes (for connection, for example). Another example is local-level tax collection where tax collectors force poor illiterate people to pay more than they are supposed to. Corruption is an area that will require further research in order to identify more clearly the links to poverty and policies to reduce it.

Country	Document	Policies Considered
		• Petroleum subsidies
Uganda	Staff Report (EBS/01/33 - March 12, 2001)	• Flexible exchange rates – depreciation mitigated the adverse impact of the terms of trade shock • Sugar liberalization
	Staff Report (EBS/99/212, November 24, 1999)	• Fiscal policy – budget composition • Structural policy - decentralizing to district level
	Staff Report (EBS/99/149, August 6, 1999)	• Growth • Fiscal policy - composition of public expenditures
Zambia	Staff Report (October 24, 2001)	• Growth • Inflation • HIPC resources to poverty reduction • Privatization of Zambia National Commercial Bank
		Use of existing data to make some poverty links for simple PSIA
Chad	Staff Report (December 26, 2001)	• Reform and liberalization of cotton sector • Increase spending for poverty reduction • Revenue collection • Food security • Good governance and accountability • Liberalization of domestic petroleum prices
Ghana	Staff Report (February 1, 2002)	• Fiscal policy - public expenditure • Petroleum product prices • Public utilities
Mozambique	Selected Issues (December 13, 2000)	• Structural reform – cashew, cotton and sugar sectors
Uganda	Selected Issues (August 12, 1999)	• Growth • Exchange rate • Liberalization and impact on women • Governance and transparency • Empowerment of women
		Specific research to analyze impacts of policy change for more complex PSIA
Chad	Staff Report (December 26, 2001)	• Word Bank research on the cotton sector is referenced in the staff report – although it is too early to influence policy advice
		Economic models for the most complex PSIA
Zambia	Selected Issues (October 22, 2001)	• Implication of HIV/AIDS for the Zambian economy – social, demographic, macroeconomic, financial and growth impacts

A. Macro Policies and Poverty Goals

Inflation

Possible trade-offs. It is widely agreed that strong economic growth is required for poverty reduction. The poor suffer more from inflation than the rich do (Easterly and Fischer, 2000). High levels of inflation harm the poor, first, by reducing growth, and, second, by reducing the value of cash held by the poor (however, many poor people in rural area are not integrated into the cash economy). Increases in the price level can generally erode the real wages and assets of the poor more than those of the nonpoor (although Cardoso, 1992, argued that the middle class would be more directly affected by inflation than the poor would even though the poor could be affected through a decline in real wages). In such circumstances, poor people may be forced to sell assets, leaving them even more vulnerable. In stabilized economies, growth as a policy objective rather than lower inflation may be more pro-poor. In general, PRGF-supported programs emphasize the protection of pro-poor spending and, in situations where public expenditures have to be reduced in order to help monetary policy contain inflation, these pro-poor expenditures are protected from cuts.

In order to control inflation, the monetary authority needs to influence indirectly interest rates. This will increase the real cost of borrowing, consuming, and producing in the short term. However, low inflation permits better planning and, therefore, higher investment and growth. Very low inflation may harm the poor if policies implemented to achieve low inflation targets restrict pro-poor spending and growth and induce a recession. A key policy question is how rapidly inflation should be reduced in relation to the target inflation rate. Thus, in controlling inflation, trade-offs may exist among public spending, the poverty impact of high interest rates, and inflation targets. Such trade-offs can be made explicit to contribute to more informed decisionmaking.

Examples from staff reports. The staff report for **Guinea** states that the anti-inflationary stance of financial policies will help protect the purchasing power of the poor, particularly those working in the informal sector and rural cash crop producers. In the case of **The Gambia**, the staff report adds that the low-inflation objective serves to protect the limited purchasing power of the poor, who predominate in rural agricultural activities and the urban informal sector. The **Mozambique** staff report states that, as well as supporting growth, low inflation is important for the strategy of poverty reduction in that the poor are generally most vulnerable to its adverse effects. The PRGF-supported program for **Mozambique,** therefore, seeks to maintain the authorities' recent good performance in limiting inflation, inter alia, by tightening monetary policy. The staff report for **Zambia** recognizes that although the PRGF arrangement supports the government's strategy by fostering broad-based economic growth and reducing inflation, these are necessary but not sufficient conditions for poverty reduction. They need to be supplemented by specific poverty-reducing measures such as pro-poor expenditures and growth policies.

Areas for follow-up. International evidence varies on what is an acceptable level of inflation with regard to the positive impact on the poor and on growth – some argue for high single digits or greater, while IMF-supported programs aim more for low single digits. Further, the relationship among interest rates, savings, and access to credit, especially for women, who are the most excluded from the formal and informal credit markets, is often difficult to determine. Evidence does indicate that high interest rates may diminish women's already scarce access to credit, which is needed for production and household emergencies. Further, in some countries, women workers are often subject to layoffs both because they predominate in small and medium-sized enterprises hardest hit by high interest rates and overall economic slowdowns, and because women are often laid off before men in both public and private sector operations. Although evidence is often unclear and it is difficult to weigh the importance of various trade-offs, the outcome needs to be considered and made explicit in making macroeconomic policy choices.

Exchange rate policy

Possible trade-offs. Overvalued currencies lower the international value of exports, and this reduces competitiveness. Allowing a currency to decline will make exports more competitive and local currency income for exporters will increase (e.g., rural cash crop farmers – where the producer prices are not fixed in local currency and there is an adequate pass-through mechanism) although it also means the cost of their inputs may rise if they are imported. The price of imports will increase due to devaluation (foodstuffs, such as cooking oil; fertilizer; fuel; including household energy; medicines; transport fares in urban areas, etc.) and this may erode real household income. Key factors are the composition of the consumption basket and **who purchases what within the household.** When a currency is devalued, household survey data can tell us the potential impact on different socioeconomic groups, such as those involved in the traded sector compared with those in the nontraded sector, plus the differential effects on rural and urban households.

Often measures have both income-raising and price-raising effects, giving rise to net benefits or detriments that differ across groups. Women may not benefit as much as men from devaluation, since they are often involved in the food crop sector and they will have to face higher costs of transportation, fertilizers, and other imported inputs. These higher costs may also raise food prices, again affecting women, who are responsible for feeding the family within the household. Another consideration is the urban poor, who may be more adversely affected as consumers. However, this may not be the case where their output is exportable or is an import substitute. Concerning health, poor people may shift to using medicine that is more traditional or go untreated. Real earnings in the informal sector (where more women than men are employed) and nontraded sector may fall.

Examples from staff reports. The **Uganda** staff report noted that the sharp deterioration in the terms of trade due to the drop in world coffee prices and increase in oil prices left poor farmers vulnerable. However, the flexible exchange rate regime also led to a depreciation of the shilling, which had a positive impact on other internationally traded goods such as noncoffee exports, thereby mitigating the impact of terms of trade shock. In **The Gambia,** the staff report states that the program supported flexible exchange rates, which, with the depreciation of the dalasi, resulted in higher prices for imports. The report adds that the poor consume mainly nontraded goods but would still be adversely affected by some higher import prices. However, the poor who are involved especially in the groundnut, tourism, and re-export sectors, tend to benefit when the dalasi depreciates, resulting in larger export proceeds and increased employment.

Areas for follow-up. In the examples from the staff reports, the poor are often seen as one group; however, further disaggregation is required, for example, to distinguish between the potential effects within the household. When a currency depreciates, export crops, usually under the control of men, may become more profitable, but such profits may not benefit the household as a whole since income may not be pooled. Meanwhile, women are responsible for buying food and medicines with their own resources, which may not have increased in value. Hence, policymakers cannot assume that export crop promotion helps women and men equally.

Growth

Possible trade-offs. Macroeconomic stability leads to higher growth, a prerequisite for poverty reduction. However, many observers recognize that growth alone is not enough for poverty reduction and should be accompanied by equity through pro-poor growth, redistributive policies, and poverty reducing expenditures (see Box 4). In some countries, growth has not been accompanied by poverty reduction (for example, **Burkina Faso** and **Benin**). Where inequality is persistently low, the poor tend to obtain a higher share of the gains from growth than where inequality is high (Ravallion, 1997).

Box 4. Is Growth Enough? Macroeconomic Policy and Poverty Reduction[1/]

The renewed sense of urgency for faster and deeper poverty reduction has spawned a growing debate on the determinants of poverty and the strategies for poverty reduction. While much research has been undertaken on the role of economic growth in lowering poverty, little is known about the set of economic policies that have an additional impact (other than through growth) on poverty reduction.

A recent working paper by Ghura, Leite, and Tsangarides (2001)[1/] contributes to the ongoing debate by providing empirical evidence on the first two issues. The paper investigates the existence of "super pro-poor policies," that is, policies that directly influence the income of the poor after accounting for the effect of growth. It uses a dynamic panel estimator to capture both across- and within-country effects, and a Bayesian-type robustness check to account for model uncertainty. The data on the income of the poor (defined as the lowest quintile of the income distribution) are taken from Dollar and Kraay (2001). The main empirical findings of the paper are:

- Economic growth raises the income of the poor, although by less than one to one. This implies that for a given target of poverty reduction over a certain period of time, the economic growth rates required may be outside what can be reasonably expected. This also implies that there is a role for policies that take into account the distributional impact of economic growth.

- There exist policies that can directly affect the income of the poor, even after controlling for the effect of economic growth. These include policies that: lower inequality, inflation, and government size; promote financial development; and raise educational achievements. The policy-related variables affect the income of the poor directly, as well as through the economic growth channel. The direct and indirect effects are mutually reinforcing, and thus, there are no identified trade-offs between growth promotion and poverty alleviation.

The results on the impact of policy-related variables on poverty stand in contrast with previous studies[2/] which find that, once the effect of overall income is taken into account, there exist no such super pro-poor policies, but confirm those of Collier and Dollar (2001), who find that the policy environment has a direct impact on poverty reduction. The result on the impact of inflation confirms that of Easterly and Fischer (2000), who find that direct measures of the well-being of the poor are negatively correlated with inflation.

[1/] This box was prepared by D. Ghura, based on Ghura, Leite, and Tsangarides (2002).
[2/] See, e.g., Dollar and Kraay (2001), and Roemer and Gugerty (1997).

Cashin and others (2001), state that a wide variance in the analysis of the relationship between growth and poverty exists and many authors point out that the policy question should focus less on the connection of the poor to economic growth on average and more on the role of policy and economic structure in countries' success in turning growth into poverty reduction. In addition to looking at economic structures, it is also important to look at **social and institutional** structures. Social/cultural analysis tries to show the ways in which privileged groups can capture the benefits of growth through, e.g., the caste system or systems of patronage and corruption. Such analysis shows that people do not compete equally in a market where benefits are shared and that social and cultural determinants militate against the equal distribution of benefits. For example, unequal social relations, such as gender inequality in education and access to assets can hamper growth.

Extreme inequalities reinforce poverty - they act as a barrier to growth by restricting the productive potential, undermining investment, and limiting the capacity of a large section of the population to respond to incentives created through market reforms. Thus, growth without policies that reduce inequality will only be partially successful, and structural poverty may remain. Kanbur (2001a) argues that, "Equitable growth is obviously better for the poor, and inequitable growth carries with it the seeds of its own destruction as social tensions undermine the climate of investment and cooperation."

Temporary social safety nets cannot address problems of inequality. Policies that improve the distribution of income and assets within a society, such as land tenure reform, pro-poor public expenditure, and measures to increase the poor's access to financial markets, can form the essential elements of a country's poverty reduction strategy (Ames and others, 2001). Two key factors that appear to determine the impact of growth on poverty are the **distributional patterns** and the **sectoral composition** of growth (Ames et al., 2002). For more pro-poor growth, policymakers could focus on sectors that engage poor people, in order to identify the **sources of growth** (PSIA using simple household surveys can provide such data) and **structural factors**.

Another important policy consideration is the trade-off between short-term growth and longer-term environmental impacts and sustainability that affect poor people.[21] Natural resources contribute to economic growth (e.g., water and soil fertility as agricultural inputs, and fuel wood as an energy source for small-scale production) and environmental goods and services are important to poor people's environmental health and quality of life (and, by inference, their productive capacities). The lack of adequate water and sanitation is, for example, a critical problem that undercuts productive activity and contributes to the poverty cycle. However, it is difficult to measure the importance of the environment, especially in terms of assigning a monetary value to its use and preservation.

Examples from staff reports: Fund-supported programs are now focusing more on the *sources of growth*, including structural reforms that aim at diversifying the economy, enhancing external competitiveness, increasing labor productivity, and liberalizing trade (supported by greater market access for low-income country exports) to promote pro-poor growth. In **Mozambique**, the staff report describes the sources of growth in the government's strategy, which recognizes that growth would need to be broad-based to benefit the poor. Agricultural production—including a further recovery from the losses resulting from floods—is expected to contribute to the incomes of the poor, together with the expansion in internal trade, transport, and services. The direct and immediate benefits to the poor from large-scale private foreign investments (such as the MOZAL aluminum smelter) are identified as relatively modest, at least in comparison with their contribution to overall growth, given that these projects are capital and import intensive. In addition, the revenue yield from these projects and by implication the contribution to financing essential social spending, is estimated to be modest.

The staff report for **Malawi** identifies the **structural factors** that have limited growth: highly concentrated agricultural production; drought; volatile commodity prices; the landlocked nature of the

[21] For more details on this topic see the IMF and World Bank, (2000), chapter on environment, at *http://www.worldbank.org/poverty/strategies/chapters/environment/environ.htm.*

country; regional disruptions; population pressure; uncertainty over land rights; and HIV/AIDS. The report adds that these factors do not explain Malawi's poor growth performance compared with other African countries, particularly since **Malawi** also has the advantage of civil peace, fertile agriculture and fishing, and high donor support. The selected issues paper for **Zambia,** analyzes the impact of HIV/AIDs on growth.

Areas for follow-up. Areas that require follow-up are: (1) the impact of distributional patterns on growth and poverty; (2) the links among a country's social fragmentation, social exclusion and democratization, and growth (see Ravallion, 2002); (3) the sources of *sustainable* growth and alternative policy options to achieve it; (4) role of private sector investment in promoting pro-poor growth; (5) estimating the impact of HIV/AIDS on growth and hence on growth predictions; (6) the impact of remittances and (7) improvement in understanding how fiscal and monetary policies can take into account the unpaid domestic economy that centers on welfare, as well as the market-based economy, which centers on commodities.

Fiscal deficits

Possible trade-offs. Fiscal deficits not covered by external resources can lead to growth in domestic public debt, high interest rates, and a crowding out of the private sector. In such circumstances, keeping the deficit as small as possible is important. However, larger fiscal deficits covered by external assistance could be necessary to accommodate the pro-poor spending needed to achieve MDGs and the country's development goals. Nonetheless, the externally-financed spending can complicate macroeconomic management and may raise issues of extended debt sustainability (see Box 5).

Examples from staff reports. In **The Gambia**, the staff report noted that the fiscal strategy to contain the overall deficit and, eventually, the domestic debt had in the short term limited government expenditure and put emphasis on revenue collection; this strategy had reduced the disposable income and, therefore, the consumption of the public, including the poor. In **Guinea**, budgetary resources were allocated for immediate humanitarian assistance to the populations displaced by the border conflict, and for reconstruction. While this allocation led to a larger overall deficit, the authorities, and the joint mission considered the expenditures essential to prevent the development of additional pockets of poverty, and to foster the recovery of economic activity. In **Sierra Leone**, in order to accommodate the high post-conflict costs of rehabilitation and reconstruction, the overall deficit (before grants) was expected to rise to about 28 percent. All Heavily Indebted Poor Countries (HIPC) have increased their deficits because of HIPC assistance and have higher expenditures aimed at reducing poverty.

Areas for follow-up. The links (and trade-offs) among increased fiscal deficits, donor funding, competitiveness, sustainability, and pro-poor expenditures for reaching the MDGs could be more explicitly explained in staff reports.

Box 5. Fiscal Deficits, Donor Financing, Poverty Expenditures, and Competitiveness – Is There a Balance? [1/]

External financial assistance provides recipient countries with the resources needed for the implementation of their poverty reduction strategies but it can create a real appreciation of the currency of the type discussed in the Dutch disease literature. [2/] In line with this literature and the experience of countries that had received massive capital inflows, externally financed poverty reduction spending on domestic goods and services can complicate macroeconomic management, drive up the price of nontraded goods and services, and appreciate the currency in real terms with possible adverse consequences on export competitiveness and growth. However, the macroeconomic implications of aid-related resource booms could be more complex than envisaged in the Dutch disease literature. Aid involves interplay of factors with short- and/or long-term benefits as well adverse impacts depending on country-specific circumstances. While it could undermine exports competitiveness through real currency appreciation, it allows the development of basic capabilities—infrastructure and human capital— that ease constraints on production, including that of exportables. Moreover, the combination of aid and an enhanced policy environment can contribute to increased productivity, mitigating the adverse impact of real appreciation of the currency on exports and economic growth.

[1/] This box was prepared by Mwanza Nkusu, based on Nkusu (2002).
[2/] The real exchange rate is a measure of the competitiveness of a country's exports. When the real exchange rate appreciates, the production of exportable goods is discouraged.

B. Structural Policies and Poverty Goals

Privatization

Possible trade-offs. The intention of privatization is to lower costs, improve quality, and expand access to goods and services produced by parastatals. Governments the world over often spend a lot of revenue on subsidizing inefficient state enterprises. Inefficient and loss-making utilities divert resources away from pro-poor investments. Pro-poor expenditure may increase when public subsidies are reduced through privatizing the public enterprise and by income receipts from privatization. Privatization can also potentially improve efficiency and effectiveness. Market rates can then ensure utilities are not loss making, and can improve investment rates. Subsidies/compensation for the poor can ensure that they maintain access to utilities.

The trade-offs are: privatization may lead to job losses and retrenchment that are not accompanied by adequate compensation; utilities such as water and electricity, and areas of social sector delivery, often have weak regulation with limited or no incentives for the private sector to address needs of the poor and remote populations; pro-poor pricing is not always considered; shifts to market rates can exclude the poor and lead to huge price increases; labor conditions may deteriorate; the privatization of utilities can replace a state monopoly with a private one that can force prices up; and, privatization sales can be corrupt and badly managed, with reduced values of sales receipts. Both the reduction of public services and the privatization of public services may affect women more than men, given women's lower incomes and their responsibilities in the household (see United Nations, 1997; and Moser, 1990). Reform of inefficient state-owned enterprises is necessary, but their rapid closure may generate high unemployment at a time when the private sector is often not able to absorb surplus labor. If prices of clean water increase because of privatization, the health of poor people may be affected.

Examples from staff reports. Table 3 below outlines the various privatization policies described in staff reports.

Table 3. Country Comparison of Poverty-Focused Policy Responses: Privatization

Country	Poverty-Focused Policy Action
Senegal	• Realignment of groundnut producer price to international price and reduction of quantity purchased by public enterprise, SONACOS. Trade-offs - reduction of producer price reduce household income in rural areas - farmers may not immediately benefit. However, policy ensures sustainable production levels, reducing household vulnerability to income fluctuations. In addition, not all farmers benefited from current system since producer price set by government does not cover total production of groundnuts, and weak financial management of SONACOS. The privatization of SONACOS is planned to promote greater equity and free government resources for poverty reduction.
Cameroon	• The privatization program undertaken by the government is expected to have an important and direct impact on the welfare of the poor. Privatization aims at both increasing the production and expanding the scope of basic services vital to the poor and helps enhance efficiency. Such services include the provision of clean water (the ongoing privatization of the water company, SNEC) and electricity (the privatization of the electricity company, SONEL); as regards SONEL (which has already been privatized), efforts are being made to limit labor shedding and compensation packages are being negotiated. In addition, the privatization of the agribusiness sector is expected to be instrumental in enhancing the participation of the private sector in the management and production of agricultural products.

Areas for follow-up. Privatization often leads to fiscal savings. Therefore, a key question for PSIA is how such savings can be distributed among the poor. Another key area is establishing adequate regulations before privatization. This step has not been taken in many countries, including **Uganda**. This may mean that privatization could take longer – but the poor may be protected by adequate regulation. In addition to tracking classic indicators, such as, price, access, and efficiency, other indicators that track the status of the potential losers need to be considered. For example, in **Honduras** a price increase in electricity as a result of privatization could have lead to people's substituting for firewood that would have had both environmental and health implications. The implication is that in order to contribute to more evidence-based policymaking, a good monitoring system should include firewood sales and health indicators.

In **Ghana,** the main question for PSIA is whether poor people had better access to safe and affordable water before privatization than after. Currently, access is limited – even in areas with piped water, the supply is erratic. As such, many poor people depend on water trucks for which they pay a very high price. Distribution of water by these trucks is inefficient and much of the water goes missing. Without privatization, it is predicted that prices will increase.

Privatization in **Ghana** may lead to extended coverage as well as to improved management, reduced public debt, and more cost-effective service delivery. However, privatization is controversial since access to clean and affordable water is fundamental to public health and directly affects the vulnerability of poor people.[22] Further, should poor people be responsible for full cost recovery? PSIA could track the economic considerations as well as the impacts related to public health, social equity,

[22] About 1.1 billion people are without access to safe drinking water. The effect of this are found in the long hours spent collecting water, mainly by girls and women, and in the ill health and high child mortality due to drinking unsafe water. Over 5 million people die each year from waterborne diseases (most of them children), more than those killed in wars around the globe. The United Nations estimates that by 2025, 2.7 billion people will be denied access to water.

environment, gender roles, and sustainable resource management. In addition, for **Ghana** it would be important to track how the 0.2 percent of GDP earmarked to subsidize the price of water, including a preferential rate for small-volume users, is allocated.

Trade liberalization[23]

Possible trade-offs. In Africa, the poor are largely dependent on small-scale agriculture and the natural resource base, investment is low, markets are weak and segmented, and fragile institutions are increasingly exposed to international market forces through trade liberalization (Kanji and Ware, 2002). Thus, an understanding of the social, institutional, and environmental context can contribute to the policy debate on the potential impact.

Overall, trade liberalization can lead to growth and poverty reduction. However, in many cases transitional costs can heavily affect the poor. Looking at the overall household effect, McCulloch and others (2001) identify three pathways through which trade liberalization can directly affect poor households: price transmission (depends on whether the poor are net consumers or producers of the product whose prices has changed); enterprise (affects profits and, hence, employment and wages); and taxes and spending (changes in the government's fiscal position).

Other factors determining the poverty impact of trade liberalization are intrahousehold effects and the extent of transitional unemployment. Disaggregating the impact of trade liberalization may reveal other impacts important for policymaking – understanding such impact may lead to a different policy mix. For example, in Africa, liberalization has produced incentives for farmers to switch land and labor to export crop production. However, this may have forced women to reduce time tending farm plots (often producing food crops to feed the family), which are the basis of food security, and spend more time as unpaid laborers in export crop production. In some cases, greater trade openness can be associated with increases in women's share of paid employment but no reduction in women's share of unpaid work in caring for families. Liberalization may also reduce economic activity in the area in which women are concentrated, the "nontradable" sector. However, positive effects of higher incomes can accompany negative effects of trade liberalization on the labor choices of women for women or greater labor choices.

Through reform, many agricultural commodity markets in Africa are now relying more on market forces and open competition and less on government marketing boards, official monopolies, and state-determined domestic prices. Such reforms can lead to increased investment, growth, reduce rent seeking and increase incomes for farmers.[24] Nevertheless, the benefits of market reform and trade liberalization are fully realized only when supporting factor markets and institutions work (Akiyama and others, 2002; and McCulloch and others, 2001).

---

[23] See also Bannister and Thugge (2001).

[24] There is some evidence that the causality can go either way. For example, it is argued that trade often increases most during mild protectionist phases and that it is growth that generally leads to trade—not vice versa (Bairoch, 1997, p. 310, cited in Milanovic, unpublished). Kanbur (2001a) suggests that the reform of national institutions could create a local climate for investment and entrepreneurship, which would then lead to both growth and greater trade.

For example, in **Zambia**, and other countries, marketing boards were distributional mechanisms that subsidized urban populations and taxed the rural poor. In **Zambia**, Cashin and others (2001) argue that liberalization of the maize markets had a negative impact on the poor in part because the functioning markets disappeared and were not replaced by private markets. After the maize market disappeared in **Zambia**, many farmers were unable to go back to farming their previous crops and technical assistance was not forthcoming. The implication is that, where trade liberalization leads to the disappearance of markets, the impact on the poor need to be understood and policies put in place to support those negatively affected.

It is widely recognized that "protectionism" can deny certain groups of poor people cheaper and more affordable goods. In an effort to protect industries from external competition, governments sometimes impose restrictions or tariffs on imported items, forcing their population to consume inefficiently produced local goods that turn out to be more expensive, and usually of lower quality, than the imported product. This practice is justified on grounds of infant industry protection. In so doing, the poor may be negatively affected, as they have to spend more on inefficiently produced local goods or pay more for the imported item. A good example in **Uganda** is the banning or heavy taxing of used clothing (extremely cheap and used mainly by the poor) in order to protect the garment industry. Sugar is another example, where protectionism has resulted in the poor being forced to consume more expensive locally produced sugar since the market is closed to sugar imports. Bans on the import of mosquito nets and genetically modified foods are also good examples. Further, powerful political interest groups may favor protectionism when they have stakes in certain sectors that are not tailored to meet the needs of poor people.

However, many poor countries are rapidly opening up their markets with the result that some farmers are becoming vulnerable to low and unstable commodity prices (Oxfam, 2002b). Further, as farmers switch to the production of a single cash crop (opening up markets may decrease the diversity of crops), they may become more vulnerable to crop disease and declining world market prices – factors that are all out of their control. This could threaten household and national food security and in such circumstances some argue the need for a more managed process, with opening being delayed while social safety nets are put in place (see Kanbur, 2001a).

Finally, many African countries are at a disadvantage as they are often unable to benefit from economies of scale and the costs of entry to the market are high.[25]

Two widely recognized overriding problems for trade are the large subsidies being paid by developed countries to their farmers and the substantial distortion of agricultural trade by irrational trade barriers.[26]

---

[25] For example, many African countries import from China cheap plastic buckets that were produced with cheap labor (perhaps less than the market rate) through large-scale state enterprises. In such circumstances, it is difficult for African entrepreneurs to compete.

[26] The IMF Managing Director, Horst Köhler has raised this issue many times. He made the following statement, "... in my view, the true test of the credibility of wealthy nations' efforts to combat poverty lies in their willingness to open up their own markets and phase out trade-distorting subsidies in areas where developing countries have a

Examples from staff reports. In **Uganda**, the staff report states that, because the removal of the protection of the sugar industry would hurt the poor, an agreement was reached with the government to eliminate protection only after adequate measures were put in place to safeguard the social benefits provided by the industry. In **Chad**, the staff report states that cotton is being liberalized to increase farmers' revenues and overall productivity. Starting in 2000, farmers' prices are linked, via a predetermined formula, to world market prices. However, a substantial drop in world market prices for cotton, **Chad**'s main export commodity, could affect cotton producers and undermine ongoing reforms. **Chad** is, therefore, seeking assistance from the international community, including the Fund, to offset part of the decline in farmers' income.

Areas for follow-up. A clearer understanding is required as to why some countries and social groups are able to benefit more than others are from increasing trade flows. For example, the benefits of trade expansion may vary between men and women as well as between groups of women. The differential impact is usually dependent upon various factors and preconditions that are not always considered such as patterns of rights in resources, female labor force participation rates, education levels, and gaps, and patterns of labor market discrimination and segregation as well as socio-cultural environments.

The direct links between absolute poverty and trade reform need also further analysis (Cashin and others, 2001). To predict the effects of agricultural liberalization on the poor (which are very country specific), each poor group's net consumption of the goods to be liberalized – namely, whether they buy more of them than they sell – as well as details of rural labor markets and demand patterns needs to be understood (McCulloch and others., 2001). In addition, the impact on the environment of high-input (such as fertilizers) export crops needs to be investigated.

For all reforms, it is helpful to understand the political economy. For example, the staff report for **Uganda** rightly states that the removal of the protection of the sugar industry would hurt the poor. However, another dimension is that this industry is well organized and may have been able to use its political weight to slow down the reforms that would remove some of the benefits to the sector.

Ex ante analysis can help mitigate possible negative impacts by identifying alternatives scenarios for possibly the timing, phasing, and appropriateness of the reform, as well as the need for complementary policies and targeted safety nets. The timing of liberalization is particularly important since rapid liberalization could increase poverty and inequality[27] – in some cases poor countries have

---

comparative advantage—as in agriculture, processed foods, textiles and clothing, and light manufactures. An honest commitment to the UN development goals can be measured by the headway the world makes on the difficult issue of agricultural subsidies. It is unconscionable that for the United States, Japan, and the European Union spend hundreds of billions of dollars on maintaining marginal activities for the benefit of a few of their citizens, while devastating agricultural sectors that are central to peace and development in poor countries," Köhler (2002).

[27] The North American Free Trade Association ensured that the price of maize in Mexico was liberalized over a longer period of time to allow markets to adjust since the rural poor relied on maize for both subsistence and income and the price of maize from the United States was very low.

been opening up their economies more quickly than rich countries (Oxfam, 2002b). Complementary policies, such as improved extension services, transport, and access to water (to reduce women's time in water collection) could also be considered.

Banking sector

Possible trade-offs. Banking sectors in low-income countries where state banks still play a major role are often inefficient, monopolistic, and corrupt. Reforms may promote confidence in the banking sector, and reduce unproductive lending by state banks. Such reforms should increase the amount of credit available to the private sector to stimulate growth. However, banking sector reform may eliminate large state-owned national banks that have provided banking service to the poor. Reforms may be made for increased efficiency reasons but should be coupled with actions to establish pro-poor financial services. Potential high transaction costs and collateral constraints, especially for women who often do not own land (often a major source of collateral), also need to be addressed.

Examples from staff reports. In **Zambia**, the staff report recognizes that the privatization of the Zambia National Commercial Bank would improve the soundness of the banking system and reduce possible contingent demands on the budget. The report also acknowledges that rural branches may be affected. The government has, therefore, established a committee to identify options for dealing with rural branches of the ZNCB, including the creation of a rural finance institution.

Areas for follow-up. In most countries, the links among banking reform, micro finance, savings, and access to credit for poor people could be better understood and documented in staff reports.

Petroleum prices

Possible trade-offs. High prices could affect the poor in countries where they consume kerosene and/or are dependent on transport. However, improved government revenue from higher fuel prices could help sustain expenditure. Similarly, price liberalization increases energy supply. The impact on the poor could be mitigated to some extent through the provision of cross subsidies for kerosene. If prices rise, poor people in some countries, may substitute by using wood and thus negatively affect the environment in the long run.

Examples from staff reports. Table 4 gives details of the various poverty-focused policy actions detailed in staff reports.

Areas for follow-up. PSIA could analyze the both the first-round effects (petroleum prices) and second-round effects (transport and food prices) across social group and region.

Table 4. Country Comparison of Poverty-Focused Policy Responses: Petroleum Prices

Country	Poverty-Focused Policy Action
Senegal	Full pass-through for petroleum products reinstated. The decline in the world market price of oil has been passed on to consumers. The automatic adjustment of the prices of petroleum products protects petroleum tax revenue and provides additional resources for social sectors. However, a flexible price of retail petroleum products leads to a higher cost for consumers when the world price of oil increases. Government maintains price of butane gas below the world market price - predominantly used by the poor. The government is widely distributing butane gas, even to rural areas, with the objective of reducing the use of firewood as fuel and, therefore, decreasing deforestation.
The Gambia	Adjustment in petroleum product prices. The hhort-term adverse impact on consumers was reversed when world oil prices decline. Impact on the poor mitigated through provision of cross subsidies to kerosene. Improved government revenue from higher fuel prices helped to sustain expenditure, including those targeted to the poor.
Guinea	Introduction of flexible retail petroleum prices. Higher costs to consumers if import prices rise. However, automatic mechanism protects petroleum tax revenues, and allows the government to implement its social expenditure program with more consistency. Import price declines will be passed through to the consumer - not previously the case.
Ghana	When raising domestic petroleum product prices in 2001 to reflect the rise in import costs and new taxes, the impact on the poor was mitigated through cross-product price subsidization and the staggered implementation of the taxes. Although gasoline consumption accounts for a higher share of expenditure in better-off households, kerosene consumption is heavily concentrated in the lower income brackets. Recognizing this, the government tapered the increases implemented in February 2001 by product: gasoline prices were increased by 61percent to help contain the increase in kerosene price to 45 percent. The reintroduction of the ad valorem and specific petroleum taxes was staggered to August and October, respectively, to take advantage of the fall in world oil prices that allowed these taxes to be implemented without further increases in retail prices. The new petroleum price adjustment formula will preserve the cross-subsidization of kerosene prices.
Chad	The government's liberalization of the domestic price of petroleum production in April 2001 had an overall positive impact: 1) price liberalization led to an improvement in energy supplies after years of persistent shortages; 2) effective prices declined overall; and, 3) shrinking of informal markets led to safety improvements as less petroleum was transported and stocked hazardously.

C. Fiscal Policies and Poverty Goals

Revenue raising

Possible trade-offs. The key trade-off is the importance of raising revenue for poverty expenditures against the need to maintain or establish a progressive nature of the tax system. Measures to increase revenue from taxation can increase pro-poor domestic expenditure. Taxing well-off groups may redistribute wealth and promote greater equity. Pro-poor policies should look at exemptions, zero ratings, or low taxation for items used by the poor. Further decentralized taxation, as well as the national level of taxation, needs to be considered. However, progress in raising revenues in many developing countries is slow, and many governments are shifting to measures, such as the value-added-tax (VAT), for which it is easier to ensure compliance. Some argue that the tax burden is too heavy in many poor countries, given their current state of development.

Other trade-offs should also be considered. For example, tax cuts could have a negative impact on pro-poor spending over the long term and tax benefits to investors may reduce revenue, and do little to attract investors. VAT may be easy to implement, and could help raise revenue, but can be regressive in that items consumed by the poor (and particularly women) will be taxed – hence the provision of exemptions are important. For example, petroleum taxes may raise revenue, but have implications for the cost of transport and paraffin taxes could penalize the poor (see IMF and World Bank, 2000).

It is common to assume that direct taxes fall on those who also bear the statutory incidence of the tax, and that indirect taxes fall on those who consume or purchase the commodity being taxed. There are two important exceptions to this rule, however: (1) gasoline taxes affect users of public transportation services as well as those who directly purchase gasoline; and (2) tariffs on imported goods affect the consumers of the imported goods as well as consumers of domestically produced substitutes, since import taxes protect domestic goods from competition and enable domestic producers to raise prices. Domestic producers of close substitutes for heavily taxed import goods will derive benefits from import taxes (see IMF and World Bank, 2000).

Examples from staff reports. Table 5 below details case examples from staff reports.

Table 5. Country Comparison of Poverty-Focused Policy Responses: Revenue Raising

Country	Poverty-Focused Policy Action
Senegal	• A single VAT at a unified rate will be introduced to replace the current dual-rate system, with a few untransformed goods of primary necessity (such as rice and fish) exempted.
Cameroon	• The government is working on introducing a personal income tax and property tax to increase the progressivity of the tax system. • To target the poor, the government has introduced subsidies on kerosene (predominately consumed by the poor) and exemptions or low taxation for basic items consumed by the poor, such as food and medicine.
Ghana	• The Education Trust Fund receives 20 percent of VAT collections.
Zambia	• Pro-poor measures include exempting all antimalarial supplies (including bed nets and insecticides) from VAT and customs duty. Malaria is still the number-one public health problem in Zambia (with a mortality rate higher than that of HIV/AIDS), and this tax reduction will help reduce the incidence of the disease among the poor. • The government introduced a number of tax reforms to improve income distribution. The basic PAYE tax credit, which was adjusted for inflation for several years, was increased by 25 percent, giving direct relief to the poorest formal sector workers. Some of the revenue losses associated with this reform were offset by replacement of the 10 and 20 percent bands with a flat 30 percent rate, which increased the marginal rate of taxation over some middle range of income; however, every taxpayer's total tax liability still falls because of the rise in the basic tax credit. • The reduction in the excise on diesel and electricity is intended mostly as a pro-growth measure, but it should also have a positive effect on the incomes of the poor. • The revenue-raising measures proposed in the 2002 budget, such as excises on cosmetics, perfumes, and motor vehicles, have been chosen to avoid any adverse impact on the poor.
Cameroon	• The government is working on introducing two reforms (personal income tax and property tax) that will increase the progressivity of the tax system and, therefore, benefit low-income individuals. • In the short term, specific fiscal measures targeted at the poor have been introduced. These include exemption or low taxation for basic items that are consumed by the poor, such as food and medicine.

Public expenditure

Possible trade-offs. The draft *World Development Report 2003* (World Bank, 2002) states that cross-country evidence shows that public expenditures have no significant effect on health and education outcomes (covering five of the MDGs), when the country's level of per capita GDP and a small number of socioeconomic variables are controlled for. The draft paper identifies four main reasons for this: governments may be spending on the wrong goods or the wrong people; even when governments spend on the right goods or the right people, the money often fails to reach the frontline service provider; even when the money reaches the primary school or health clinic, the incentives to provide the service are often very weak; and even if the service is effectively provided, households may not take advantage of them, for social and economic reasons. This "demand-side" failure often interacts with the supply-side failures to generate a low-level of public services and outcomes among the poor. However, it is widely recognized that protecting public social service expenditures is fundamental for poverty reduction when policymakers consider both the demand- and supply-side issues.

Thus, the emphasis is now on the quality and efficiency of government spending, which can be improved by concentrating on pro-poor growth and pro-poor budgets, flexible fiscal targets, strengthened public expenditure management systems, citizen accountability, and a gender-equitable focus in public expenditure management and budget process (see Norton and Elson, 2002). Structural fiscal reforms in budget and treasury management, public administration, governance, transparency, and accountability can benefit the poor in terms of more efficient and better-targeted use of public resources (Ames et al., 2001). Although resource allocations are fundamentally political and subject to political trade-offs, shifting public policy toward a focus on outcome can promote better governance by making governments more accountable.

Examples from staff reports. All staff reports detail the percentage of pro-poor expenditures in total expenditures and on public expenditure management in general. The importance of protecting health and education expenditures is reflected in the increasing use of quantitative targets, structural benchmarks, and performance criteria aimed at raising education and health care spending (see Gupta et al., 2000). Staff reports for **Uganda, The Gambia**, and **Chad** also describe the importance of tracking poverty expenditures through virtual poverty funds.

Areas for follow-up. Key areas that require follow-up include making services work better for poor people; opening up budget processes to public participation in order to promote greater transparency and accountability; better identifying pro-poor expenditures, and tracking and linking to the MDGs; developing Medium term expenditure frameworks (MTEFs) and systematic public expenditure reviews (with assistance from donors); and making gender analyses of budget allocations.

Table 6 presents examples of where IMF policy advice has taken into consideration poverty outcomes.

Table 6. Examples of Policy Changes Owing to Poverty Considerations in PRGF-Supported Programs

Country	Poverty issue identified in Staff Report	IMF-supported policy change	Possible next steps
Chad	Poor farmers negatively affected by famine and decline in world market price for cotton.	Fund increased PRGF access – an augmentation of the arrangement amounting to 10 percent of quota	
	High incidence of poverty among cotton farmers.	Cotton restructuring	World Bank is doing more detailed research on the impact of restructuring the cotton sector. More information is required on the impact of the shift from food crops to a single cash crop, cotton, on food security.
Guinea	Humanitarian aid required due to influx of refugees	Increase in fiscal deficit	
The Gambia	Majority of groundnut farmers poor and getting poorer	Restructuring of groundnut sector and governance of Alimenta (the groundnut marketing company)	More follow-up is required to understand the impact within the household and the impact on the food crop sector.
	Inflation can negatively impact on poor people	Increase in interest rates to control inflation	Assess how increased interest rates affect borrowing in rural communities.
Senegal	Fragile fiscal situation draining budget and putting pressure on poverty reducing expenditures	Restructuring and privatization of groundnut sector Privatization of electricity	The staff report recognizes that the consequences for the groundnut sector may be uneven and states that more detailed analysis is needed to track the effects on different social groups. However, it is not clear how this will be done, or when, and by whom.
Uganda	Sharp deterioration in the terms of trade due to drop in world coffee prices and increase in oil prices, leaving poor farmers vulnerable.	Use of flexible exchange rate leading to a depreciation of the shilling, which had a positive impact on noncoffee output and food crop production, thereby mitigated the effects of the terms of trade shock	Impact of higher prices of imports not clear.
	Elimination of sugar protection may affect poor people	Agreements with the government to eliminate protection only after adequate measures were put in place to safeguard social benefits provided by the industry	Track the delivery of social benefits
	From the participatory poverty assessment, poor people in the north said that insecurity, through cattle rustling, was the biggest cause of poverty	Increase fiscal deficit to fund security expenditures for northern regions	
	Donor aid required for poverty-focused expenditure, tracked through the Poverty Action Fund	Increased size of fiscal deficit to accommodate donor aid	More research is required on the balance between the increased inflow of donor aid and poverty reduction, appreciation of currency, and potential decrease in competitiveness. Which groups suffer more from the decrease in competitiveness and which groups benefit more from donor aid need to be made more explicit
Malawi	Poor people may not always benefit from growth	Relationship between growth and inequality noted in staff report	More research is required on the links between IMF-supported policies and inequality

Country	Poverty issue identified in Staff Report	IMF-supported policy change	Possible next steps
Zambia	High HIV/AIDS rates	Growth projections estimated with and without aids	
Ghana	Protect the poorer segments of the population from the costs of macroeconomic adjustment (required due to terms of trade shock with falling cocoa prices and rising oil prices)	•Increased economy-wide minimum wage in real terms. •Increase civil service wage for lower end of the pay scale •Petroleum and utility price increases have been structured to protect the poor	The PSIA should track the economic considerations as well as the impact on public health, social equity, environment, gender roles, and sustainable resource management. In addition, it will be important to track how the 0.2 percent of GDP used to subsidize the price of water including a preferential rate for low-volume users is allocated.
	Impact of VAT. Indirect evidence indicates that the incidence of the VAT is neutral if not progressive	•Increase in electricity and water tariffs for minimum usage consumers continues to be VAT exempt •Other poverty-focused exemptions	Independent research suggests that the introduction of VAT is not gender neutral – need more research
	High illiteracy rates, especially among poor people	VAT receipts earmarked for Education Trust Fund	Short term - track expenditures in education and for the longer-term track education outcomes
	Fragile fiscal situation draining budget and putting pressure on poverty-reducing expenditures	Poverty-related expenditure to remain. Cut domestic capital expenditure	
Mozambique	Floods impacting on poor and vulnerable	IMF provided interim assistance, in the context of the HIPC Initiative, heavily front-loaded	

V. Conclusion

A. Areas of Progress – What Can Be Done Now?

Actions can be taken now in the following areas:

(a) Macroeconomic and structural policies affect a wide range of diverse socioeconomic groups (for example, income, gender, spatial, generational, ethnic, religious, and livelihood groups) in different ways. The effects of such policies will change over time and therefore people will fall into and out of poverty as their circumstances alter. This means that the poor are not a static homogenous group. Thus, PSIA involves monitoring changes over time and **thinking beyond the aggregate to promote an interdisciplinary approach that combines social, economic, environmental and political analysis.**

(b) Understanding the impact of macroeconomic and structural policies on poor people is complicated and multidimensional, and relationships are often difficult to establish in definitive terms. However, since the methods and data exist, it is now possible for staff reports to **make explicit the assumptions underlying their programs and to use some country knowledge, as a first step towards PSIA.**

(c) All annual PRGF staff reports could include this simple first step towards PSIA by utilizing economic logic, and informed assessment based on country knowledge, plus previous impact analysis (from within the country or from other countries undergoing similar reforms). Based on this first step, it would be possible to **outline some of the potential options and trade-offs of key major reforms, as well as the gaps in analysis for future work.**

(d) Since many countries in Africa are noncrisis countries, reforms usually have lead time. It would be possible therefore for the **World Bank and other donors to help governments prepare necessary data and analyses for discussions in country on policy trade-offs and options as part of a country's Poverty Reduction Strategy (PRS)**. The Fund could then use the results of this analysis to influence its policy discussions with governments.

(e) **Public debate about macroeconomic reforms can help identify the most appropriate policy combination to promote growth and reduce poverty.** PSIA should be part of countries' ongoing public policy dialogue and monitoring and evaluation system (such as those established for poverty monitoring, the budget process, and PRS implementation). As such, PSIA can contribute to a more informed public debate, evidence-based policymaking, and public transparency.

B. Areas Requiring More Research/Follow-Up

More research and/or follow-up should be undertaken in the following areas:

(a) **Country and donor capacity building.** Countries and donors lack of capacity and experience to analyze poverty and social effects of policies and reforms. Most donors have focused on the poverty impact of projects as opposed to policies. As a result, donors as well as countries often have limited technical capacity and focus on the effects of policies.

(b) **Better use of existing data.** In most countries, the ability to conduct more detailed PSIA is constrained by a lack of data or more often limited utilization and integration of existing sources; however, the PRS process is creating a national demand for more updated and better-utilized data.

(c) **The analysis gap.** This paper concludes that there is still an analysis gap. Policies are being formulated and implemented without adequate PSIA. Agreement is required on improved donor coordination and clearer lines of institutional responsibility. More coordinated and timely analysis can help the Fund, governments, and countries design sound macroeconomic frameworks that also contribute to equitable development and social justice.

I. Examples of Data Collection and Data Analysis Techniques for PSIA[1]

1. Examples of data collection techniques

Technique	Description	Advantages	Limitations
Household surveys 1. Multitopic surveys (For example, LSMS and Priority Survey)	Living standards measurement survey (LSMS) - an enumerator, who typically makes two household visits, each usually lasting three to four hours, collects data. Covers usually 2,000 to 5,000 households. The first LSMS survey in a country can take between 18 and 36 months and costs between US$500,000 and US$1 million. PS - similar to the LSMS but has a shorter questionnaire and usually covers a larger sample of households (8,000).	Measurement and analysis of different poverty dimensions, their inter-relationships, and correlates.	Time-intensive (collection and analysis)
2. Demographic and health surveys (DHS)	Nationally representative household surveys with large sample sizes of between 5,000 and 30,000 households, typically. DHS surveys provide data for a wide range of monitoring and impact evaluation indicators in the areas of population, health, and nutrition.	Health-poverty measurement, health behavior analyses, basic poverty diagnostics	Measurement of other dimensions of poverty limited, diagnostics limited
3. Employment surveys	Household-based survey.	Analysis of employment patterns, wage income analysis (linked to education)	Limited use for poverty measurement and diagnostics
4. Single-topic surveys	Household-based survey	Income-poverty measurement (or another single dimension)	Limited diagnostics possible
5. Rapid monitoring surveys and service satisfaction surveys	The Core welfare indicators questionnaire (CWIQ) is a household survey that uses structured questionnaires and probability-based samples. It draws extensively from market research methodologies. It is used mainly to monitor development objectives using leading indicators such as beneficiaries' access to, use of, and satisfaction with services. The CWIQ is based on: large samples (in Ghana, the sample was 15,000 households); short questionnaires; easy data collection; quick data entry and validation; simple reporting; and fixed core and flexible modules.	Quick and cost-effective monitoring of key welfare indicators.	Income-poverty measurement not possible, limited diagnostics
Participatory Poverty Assessments (PPA)	PPA is an instrument for including poor people's views in the analysis of poverty and the formulation of strategies to reduce it through public policy. PPAs are designed in consultation with policymakers and civil society groups. Unlike a household survey, which consists of a predetermined set of questions, a PPA uses a variety of flexible participatory methods that combine visual techniques (mapping, matrices, diagrams) and verbal techniques (open-ended interviews, discussion groups) and emphasizes exercises that facilitate information sharing, analysis, and action. PPAs go beyond the household unit of traditional surveys to focus on individuals, intrahousehold dynamics, social groups (such as gender, ethnicity, class, caste, age), and community relationships. A typical PPA can take 5 to 9 months for research and analysis, with a research team of 10 to 20 people. Purposive sampling is used to select research sites (typically 40–60).	PPAs a) increase the understanding of the multidimensional nature of poverty and enable the perspective and priorities of poor people to be included in the analysis of poverty and policies; b) promote wider ownership of researchers' findings and increase the influence of these findings on policymaking by including a cross section of other civil society groups in the process; c) increase country capacity to analyze and monitor poverty and policy impacts. PPAs often take less time and cost less than household surveys because they use a selected sample of communities.	The quality of PPAs can be compromised unless facilitators are highly skilled to ensure that research is participatory, data are not biased, vulnerable groups are included, community expectations are not raised and outcomes accurately analyzed. PPAs are not as extensive, representative, or standardized as household surveys.

Technique	Description	Advantages	Limitations
Beneficiary assessment (BA)	BAs draw from consumer research, traditional qualitative social science research, anthropological participant observation (observing people and interacting with them in their environments), conversational interviews, focus group interviews, institutional assessments, and investigative journalism. A BA is designed in consultation with policymakers and others who will use the information. Information is collected through focus groups and individual interviews. A semistructured interview guide is drafted before the research begins.	Like PPAs, policymakers have greater ownership over the results and therefore more likely to use them.	Less participatory than PPAs.
Report cards	Captures citizens' feedback on public services. Draws on private sector practice of soliciting feedback from citizens and compiling "report cards". Intended clientele of public services are surveyed. The survey may be carried out by the private sector (making it similar to CWIQ surveys) or carried out by citizens' groups.	Can help test policy assumptions. Increase accountability and transparency of government expenditures. Increases participation of citizens. Can contribute towards demand-driven change. Creates a demand for good governance and better services.	Requires support from government otherwise there is a limited chance that the results will be acted upon.

2. Examples of data analysis and assessment techniques

Technique	Description	Advantages	Limitations
Benefit incidence analysis	Benefit incidence compares the distribution of benefits from public spending to the distribution of income to determine whether the overall impact is progressive. Household or individual-level data can be used to measure the share of spending that goes to different income groups. The technique can be applied to government services. Most applications have focused on education and health, and participation rates in public works programs. It involves three steps: estimating the unit cost, or unit subsidy, per person of providing a service based on expenditure data; imputing the unit subsidy to households (individuals) based on their utilization of public services—usually derived from household surveys; and, aggregating households (individuals) into groups and comparing subsidy incidence across these groups. The most common grouping is based on income or expenditure quintiles. The analysis can be further broken down by region, ethnic group, or gender.	Simple Assesses distributional incidence	Outcomes may not correlate with incidence; hence, this method does not assess impacts adequately. Measures average not marginal impact; (the two may differ significantly) Does not explain pattern of incidence
Spending incidence analysis	Spending Incidence Analysis looks at how much of the benefits of public spending accrues to households at the bottom end of the expenditure distribution. Data needs include: a representative household survey with information on household expenditures or income; consumer price index (ideally on a regional basis) to adjust household expenditure estimates for regional differences in price levels; binary indicators of utilization of publicly funded services (such as enrollment in primary, secondary or tertiary school) for each household in the sample; and (optional), data on per unit subsidy provided by the government for the relevant service *or* government budget data by sector and level of service to calculate the per capita public expenditure on a given service, ideally in small geographic areas.	More complex	
Marginal benefit incidence analysis	Marginal benefit incidence analysis measures the incremental increase in the share of expenditures going to a given quintile with a change in spending on the program. *Average* benefit calculations require data on capital and recurrent costs whereas *marginal* benefit analysis requires data on recurrent costs only. It can examine the distribution of marginal benefits from program expansion across different income groups.	Often early capture of public programs by the non-poor (due to a political constraint, for example that restricts any adverse welfare impacts on the non-poor in the short-run). Poor may benefit disproportionately more from an expansion of the existing program. For example, the rich may demand short-term payoffs from paying taxes to cover a social program's start-up costs, and only once the program has expanded (and the marginal costs of program expansion have been lowered) will it be politically feasible for the government to concentrate services in poor, remote areas.	More complex and data intensive Same weaknesses benefit incidence analysis except measurement of average effects
Tax incidence analysis	There are four possible approaches to identify whether taxes are regressive: a) general assessment can be based on a systematic review of the structure of taxes, and knowledge about consumption and production patterns among different population groups. International evidence about the distributive impact of a particular type of revenue measure can also be used; b) simple cross-tabulations of consumption patterns and income sources of different income deciles using household survey data can shed light on the distributive impact of alternative revenue services. Without		

Technique	Description	Advantages	Limitations
	knowing how household and firm purchases will shift as a result of the imposition of a tax, it is still possible to use recent household data containing information on the sub-sector in which the poor work, which goods and services they purchase, etc. to inform the likely economic incidence of the tax; c) price elasticity of demand analysis can take into account how consumers or producers will change their behavior once a tax has been imposed when inferring the economic incidence of a tax from household data.		
Public Expenditure Tracking Surveys	Quantitative analysis to trace flow of budget resources. Expenditure tracking surveys can be used as supply-side checks on service delivery and budget execution when reliable and accurate data on actual budget disbursements do not exist.	Can be useful where there is an absence of reliable administrative or financial data. Can provide data on governance, decentralization, and cost-efficiency.	
CGE models	The **Computable General Equilibrium (CGE) model is** a fully specified model of an economy, which includes production sectors, factor markets, and institutions in addition to consumers. The CGE can be used to run policy simulations, against a base run (the counterfactual). The base run can model an external shock, for example, a terms of trade shock or an increase in world interest rates.	Policy simulations produced by CGEs can compare the impact of alternative policies to counter the shock on, among other things, the distribution of income. CGE models can further specify different channels through which adjustment policies affect the distribution of income, including the change in factor payments (wages, rents and profits) arising from changes in relative prices, reductions in real incomes through increases in the cost of living and changes in the value of financial assets.	Require detailed data; are time consuming and complex; results are sensitive to the assumptions on which a particular model is based; and causality can be difficult to establish. Second round effects can be predicted only with decreasing certainty. The extent of policy relevance may be limited in poverty reduction terms since information from a CGE tends to be aggregate i.e. showing shifts in relative prices and incomes between traded good and non-traded goods sectors.
Stakeholder Analysis	The aim of Stakeholder Analysis is to identify stakeholders and evaluate their interests, influence, and capacities. Such analysis will consider groups of people who are affected by the policy as well as those who can influence the policy.	Stakeholder analysis can provide information on the political context of proposed reform and identify groups who may be opposed to the reform.	Requires country knowledge

[1/] This section is based on the IMF/*World Bank PRSP Sourcebook* (2000). *(http://www.worldbank.org/poverty/strategies/chapters/data/data.htm)*, World Bank *PSIA User's Guide* (2002).

II. Public Debate as Part of PSIA

Advantages of participation in policymaking. Although macroeconomic and structural issues remain complex, information from PSIA can help stimulate debate around difficult trade-offs, redesign policies based upon potential poverty impact where necessary, increase the understanding of reforms and eventually promote legitimacy of debated and redefined reforms. PSIA can help ensure that debates about policy choices are based on evidence that is widely agreed to be sound, thereby minimizing the effect of ideology. Ideally, civil society groups can become partners of the research process assisting in the design of the research to increase their ownership of the questions and hence the results. Stakeholder analysis can help identify key groups of people (including the poor) who can contribute their views on the policy proposals as well as their varying interests. Debate around PSIA can encourage policymaking institutions such as the government, IMF, and World Bank to explain better the poverty impact and trade-offs of their policy advice.

Complexities of participation in policymaking. First, there is an existing political context and institutional framework through which consultation takes place that can be built upon to promote a more open process of decision making. However, an understanding of the underlying power relations is necessary since they will affect policy choices and be affected by policies. For example, political structures can determine (a) the **extent of participation** around policy choices, and (b) the macroeconomic **policy content**.

Second, successful implementation of reforms will require social consensus, bargaining among social groups, and country ownership, none of which are easy to achieve when stakeholders have varying interests. Opening up the space for broader public participation in the formulation of macroeconomic policy could entrench power brokers e.g., civil servants, trade unions, and the more successful business agents, to garner benefits from the budget and other reforms. Moreover, some national assemblies may not be prepared to lose their prerogatives in budget formulation. Building the role and capacity of nonstate institutions and increasing the involvement of the poor and civil society organizations in the policy dialogue can balance the powers of the state and others.

A third complexity is that with increased liberalization and the shift to market-determined variables (interest rates and exchange rates) and globalization, the decisions affecting policy interventions are increasingly linked to global developments and may need to be taken promptly often without adequate time for wide-ranging public consultations. Finally, some policy measures, such as devaluation and bank closing, need to be handled with sensitivity since such policies could induce preemptive behavior. In such cases, however, the poverty impact can still be considered.

Process of participation for PSIA. PSIAs can contribute to the development of PRSPs. For example, the PRSP could present various aggregate spending scenarios to reveal trade-offs between different macroeconomic and fiscal policy options. With this information, groups can bargain over the allocation of resources. Elected assemblies (national and local) and domestic interest groups can be included to scrutinize plans and budgets. Medium-term public spending plans, which influence annual budgets, can incorporate poverty reduction priorities, especially if processes are transparent and accountable. The expertise of parliamentary committees can be built to examine budgets with an understanding of trade-offs. Where possible budgets could be published – even at the local level (for example, **Uganda**). This could give people an understanding of what they should expect and demand. See Appendix Box 1 for a summary of the policy stages for public debate in PSIA development.

In many countries, public debate on macroeconomic policies can be further improved. For example, in **Uganda**, although there was extensive consultation around the development of the national poverty strategy, the Poverty Eradication Action Plan, some civil society organizations expressed concern about being excluded from the dialogue on macroeconomic and structural policies. They viewed this as a parallel process (see Nyamugasira and Rowden, 2002).

Although the government is primarily responsible for opening up the macroeconomic dialogue through the PRSP, the Fund could support governments in this task by helping them build the capacity of civil society and governments. In the past, many civil society groups and government officials have requested such assistance in order to understand better the economic debates. The Fund could work with government and donors to build this capacity. Currently, the Fund trains and builds capacity in financial programming for central ministries of finance and economy and the central banks. Such training could be extended to line ministries and civil society organizations by supporting a national institution to provide demand lead in-country training for civil society organizations and government officials in financial programming, poverty impacts of macroeconomic reforms, and analysis of policy trade-offs.

Appendix Box 1. Participation in Development of PSIA

Participation at the policy level may be appropriate at different stages including policy formulation, adoption, implementation, and monitoring and evaluation (see Shah and Youssef, 2002). PSIA can contribute towards policy formulation and for monitoring and evaluating impacts.

- **Formulation: The first step is to undertake a** simple stakeholder analysis to clarify the influence and interest of various groups. The potential poverty and social impact of the proposed reform program should then be outlined to contribute towards an open debate and to enable participants to understand better the policy trade-offs and alternatives, in addition to an analysis of the institutional capacity and constraints. Different groups in society can contribute towards the development of a PSIA. At this early stage, the PSIA can help present a range of macroeconomic scenarios that are linked to social policy and poverty reduction goals. The PSIA should also include a consideration of the potential risks such as exogenous shocks and the political context that may undermine the various proposed reforms.

- **Policy adoption:** Formal adoption usually involves administrative or legal approval. As such, broad participation is limited but the public should be informed when the policy is adopted.

- **Implementation:** Various groups, beyond government, can be involved policy implementation, such as partnerships for service delivery.

- **Monitoring and evaluation:** Different groups can provide valuable data on the poverty and social impact of policies and institutional performance for implementation. Some reforms require institutional reorganization and the development of new institutional relationships. Such information can contribute towards evidence-based policymaking by promoting a discussion on whether the policy's implementation should be adapted or whether the implementing institutions have the capacity and the incentives to implement the reforms.

III. Case Examples from African Department Staff Reports

Ghana

The following information is derived from the fourth review under the Poverty Reduction and Growth Facility, Requests for Waiver of Performance Criteria and for Extension of the Commitment Period, January 31, 2002.

Poverty and Social Issues

The completion of the full Ghana Poverty Reduction Strategy (GPRS), originally scheduled for early October, is not now expected until early 2002. Work on the costings and prioritization of programs, in particular, has taken longer than expected, and the authorities wanted more time for consultations. The authorities' PRSP Preparation Status Report describes where the work stands and what remains to be done, and the joint staff assessment by Bank and Fund staff concludes that the progress toward the final PRSP has been satisfactory. In the absence of the completed GPRS, the staffs have provided an extensive summary of its main elements in the HIPC decision point document.

Under its 2001 program, the government sought to shift resources toward public services of particular importance for the poor, and to protect them from the adjustment costs entailed in stabilizing the economy and putting the public finances on a more sustainable path. Appendix Box 2 analyzes these issues, drawing on work by World Bank staff and focusing in particular on some discrete measures in the program that could be expected to affect low-income groups directly.

In their 2002 budget, the authorities plan substantial increases in poverty-related expenditures.[1] Excluding potential HIPC-financed expenditures, the budget is expected to boost the allocations for poverty-related spending to 24.2 percent of total expenditure, from 22.5 percent budgeted in 2001, implying an increase of around 5 percent in real per capita terms. The envisaged debt relief under the enhanced HIPC Initiative would allow an additional 1.3 percent of GDP in poverty-related expenditures, bringing the total real per capita increase in such expenditures to 27 percent in 2002.

---

[1] The authorities' definition of poverty-related expenditure is described in the HIPC decision point document (forthcoming).

Appendix Box 2. Poverty and Social Impact Analysis of Ghana's PRGF-Supported Program [1]

To improve access for the poor to public services, resources devoted to **health and education** are being progressively increased. In the 2001 budget, the budgetary allocations for the health and education ministries increased to 36 percent of domestic primary expenditures, up from 32 percent in 2000. This ratio is set to increase to 42 percent under the proposed 2002 budget. The government is also implementing social relief programs in the northern and central regions to combat the rise in the incidence of poverty in these areas.

When increasing domestic **petroleum product prices** in 2001 to reflect the rise in import costs and new taxes, the impact on the poor was mitigated through cross-product price subsidization and staggered implementation of the taxes. Although gasoline consumption accounts for a higher share of expenditure in better-off households, kerosene consumption is heavily concentrated in the lower income brackets (see Table 1). Recognizing this, the government tapered the increases implemented in February 2001 by product: gasoline prices were increased by 61 percent to help contain the increase in kerosene price to 45 percent. The reintroduction of the ad-valorem and specific petroleum taxes was staggered to August and October, respectively, to take advantage of the fall in world oil prices that allowed these taxes to be implemented without further increases in retail prices. Looking to 2002, the new petroleum price adjustment formula will preserve the cross-subsidization of kerosene prices.

Table 1 : Petroleum Expenditure Shares in 1998/9

(% of expenditure)

Quintile [2]	Gasoline	Kerosene
1	0.04	2.53
2	0.06	1.75
3	0.11	1.48
4	0.07	1.12
5	0.50	0.72

Source: GLSS IV, 2000

The PURC's plan to move the **public utilities** companies towards full cost recovery by 2003 is expected to have the largest impact on high-income households. This mainly reflects the fact that 59 percent of the population, principally those in rural areas, do not have access to electricity. Even for those with access, the current subsidization of regular tariffs and the blanket life-line subsidy for the first 50 kwh benefits highest-income households disproportionally as they consume 10 times more electricity than those in the poorest income bracket (see Table 2). The phased increase in retail electricity prices to the proposed target rates will reduce the price subsidy for all consumers but it will also narrow the gap in the distribution of benefits between the richest and poorest groups. Pending the finalization of the plans for water utility companies, the government has allocated in the proposed 2002 budget some 0.2 percent of GDP to subsidize the price of water for the poor.

Table 2 : Expenditure Shares of Electricity Consumption and Subsidy in 1998/9

(% of expenditure)

Quintile	Consumption	Price Subsidies		
		Current Rate A [3]	Current Rate B [3]	PURC Target Rate
1	0.14	0.09	0.22	0.08
2	0.34	0.20	0.47	0.17
3	0.63	0.30	0.81	0.29
4	0.96	0.42	1.19	0.41
5	1.34	0.50	1.53	0.50
(5/1)	9.6	5.6	6.9	6.3

Source: GLSS IV

[1] This box draws on work by the World Bank Ghana Office on the impact of price adjustments on the poor.
[2] Quintile 1 is the poorest expenditure group
[3] A shows the impact of the life-line subsidy alone; B shows the actual combined impact of the subsidized current tariffs and the life-line tariffs.

Zambia

The following information is an extract from Zambia Staff Report for the Fourth Review of the Program and a Request for the Fourth Annual Program Under the Poverty Reduction and Growth Facility, May 2002.

Appendix Box 3. Poverty and Social Impact of Program

Expenditure policy
A major focus of the PRGF-supported program for 2002 is on public expenditure reforms to ensure that government resources are increasingly oriented toward PRSP priorities. The development of the medium term expenditure framework (MTEF) will improve forward planning of budget allocations, and bring it in line with PRSP objectives. The introduction of the Integrated Financial Management Information System and other expenditure control measures will improve budget execution and monitoring, thereby increasing the likelihood that budgeted expenditures actually reach the poor.

Revenue measures
On the revenue side, the government has introduced a number of tax reforms to improve income distribution. The basic PAYE tax credit, which had not been adjusted for inflation for several years, has been increased by 25 percent, giving direct relief to the poorest formal sector workers. Some of the revenue losses associated with this reform have been offset by replacement of the 10 and 20 percent bands with a flat 30 percent rate, thereby increasing the marginal rate of taxation over some middle range of income; however, every taxpayer's total tax liability still falls because of the rise in the basic tax credit.

Other pro-poor measures include exempting all anti-malarial supplies (including bed nets and insecticides) from VAT and customs duty. Malaria is still the number-one public health problem in Zambia (with a mortality rate higher than that of HIV/AIDS), and this tax reduction will help reduce the incidence of the disease among the poor. The reduction in the excise on diesel and electricity is intended mostly as a pro-growth measure, but it should also positively affect the incomes of the poor. Finally, the revenue-raising measures proposed in the 2002 budget, such as excises on cosmetics, perfumes, and motor vehicles, have been chosen to avoid any adverse impact on the poor.

Privatization of Zambia National Commercial Bank (ZNCB)
A number of unprofitable rural branches of the ZNCB are likely to be affected by the privatization of the bank. Before completion of the privatization, Zambia Privatization Agency (ZPA) will conduct a feasibility study to identify options for creating a new institution to provide financial services in these areas. Technical and financial assistance will be sought from the World Bank and other donors for the development of this institution.

IV. Poverty Descriptions in IMF Staff Reports

Country and Document	Poverty Description	Comments
Cameroon Dec. 28, 2001, Staff Report	Box 3 Poverty and Social Impact of Programmed Measures	Analyzes the poverty and social impact of policy measures.
Chad Apr. 30, 2001, Staff Report	Box 3. Oil Development Projects	Highlights the poverty-reducing impact of oil projects.
	Box 4. Use of Virtual Poverty Fund	Presents statistics on budget allocations.
Dec. 26, 2001, Staff Report	Box 4. PRGF and Poverty and Social Outcomes	Links PRGF-supported program to poverty.
Gambia, The July 2, 2001, Staff Report	Section: Social impact of the program	Links PRGF-supported program to poverty.
	Box 2. Governance Issues in The Gambia	Highlights the deteriorating state of governance and its poverty implications.
	Box 4. Microfinance in The Gambia	Describes formal and informal institutions for microfinance and stresses their importance for poverty reduction.
Nov. 28, 2000, Staff Report	Box 1. Including the Poor in the Definition of Poverty and the National Policy Debate: The Gambia's Participatory Poverty Assessment.	Highlights the multi-dimensional nature of poverty – beyond income and consumption.
	Box 2. The Strategy for Poverty Alleviation	Provides background to the government's poverty strategy.
	Box 3. Revitalizing the Agricultural Sector	Describes how problems in the sector have contributed to deterioration in poverty in the country.
July 7, 2000, Staff Report	Box 3. Poverty Profile of The Gambia	Describes poverty.
Ghana Feb. 1, 2002, Staff Report	Box 6. Poverty and Social Impact Analysis of Ghana's PRGF-Supported Program	Links selected PRGF-supported policies to poverty.
June 14, 2001, Staff Report	Section: Social Policies for 2001	Describes poverty focused budget allocations and VAT.
Guinea Apr. 18, 2001, Staff Report	Section: Social impact analysis	Links PRGF-supported program to poverty.
Dec. 8,1999, Staff Report	Section: Guinea: Social Development	Provides background on poverty, status, major challenges for poverty reduction and government policies.
Malawi Dec. 11, 2000, Staff Report	Section: Poverty and Growth in Malawi	Provides background to poverty and growth.
Dec. 15, 2000, Selected Issues and Statistical Appendix	Section: The Impact of HIV/AIDS	Analyzes the social, economic, fiscal and sectoral impact.
Mozambique Sept. 6, 2001, Staff Report	Box 3. The PRGF-Supported Program and the Links to Poverty Reduction	Key PRGF supported policies are linked to poverty
Dec. 13, 2000, Selected Issues and Statistical Appendix	Section: Rural Poverty in Mozambique	Explains the characteristics and causes of rural poverty and the role of agriculture, small holder sector and cash crops.
Senegal Aug. 30, 2001, Selected Issues	Section: Poverty – Related Issues	Gives a detailed description of preliminary Poverty and Social Impact Analysis of key reforms.
Jan. 31, 2001, Staff Report	In Section F: Para 33: Measures of the government	Establishes a link between policies and reduction of poverty.
June 1, 2000, Staff Report	Section: Development of Human Resources and Debt Relief	Poverty focus of some government policies.
Uganda March 12, 2000	Box 3. Poverty and Inequality	Background on poverty status.

Country and Document	Poverty Description	Comments
	Box 4. The HIV/AIDS Pandemic and the National Response	Provides a detailed background of complex interlinkages among, poverty, inequality, and the AIDS.
Nov. 24, 1999, Staff Report	Box 1. Linking Macroeconomic Policy Choices to Poverty Outcomes	Looks at key macroeconomic and structural policies and the links to poverty.
Aug. 6, 1999, Staff Report	Box 3. Poverty and Economic Growth Section: Social Policies for the Alleviation of Poverty	Provides background on poverty status. Describes social expenditures.
Aug. 12, 1999, Selected Issues and Statistical Appendix	Section: Poverty and Social Development in Uganda	Contains detailed 20 page section on poverty status, vulnerability, coping mechanisms of the poor. Links policies to poverty and describes government policy.
Zambia Oct. 24, 2001, Staff Report	Box 2. The PRGF-Supported Program and the Government's Strategy for Poverty Reduction	Links key policies in the PRGF to poverty.
Oct. 22, 2001; Selected Issues and Statistical Appendix	Section: Implication of HIV/AIDS for the Zambian Economy	Looks at the demographic, social and economic impact. Uses models to assess the macroeconomic impact. Assesses fiscal implications.
July 11, 2000, Staff Report	Box 3. Human Development Indicators and Poverty and Social Policies	Describes poverty status and government poverty policies.

Bibliography

Akiyama, T., J. Baffes, D. Larson, and P. Varangis, 2002, "Commodity Market Reform: Lessons of Two Decades," Regional and Sector Studies (Washington: World Bank).

Ames, B., W. Brown, S. Devarajan, and A. Izquierdo, 2001, "Macroeconomic Policy and Poverty Reduction." (Washington: International Monetary Fund and World Bank).

Baden, S., 1997, "Economic Reform and Poverty: A Gender Analysis Report." (Stockholm: Prepared for the Gender Equality Unit, Swedish International Development Cooperation Agency).

Bannister, G., and K. Thugge, 2001, "International Trade and Poverty Alleviation," IMF Working Paper 01/54 (Washington: International Monetary Fund).

Blackden, M., and C. Bhanu, 1999, "Gender, Growth and Poverty Reduction," World Bank Technical Paper No. 429 (Washington).

Booth, D., J. Holland, J. Hentschel, P. Lanjouw, and A. Herbert, 1998, "Participation and Combined Methods in African Poverty Assessment: Renewing the Agenda." (London: Social Development Division, United Kingdom Department for International Development).

Booth, D., and H. Lucas, 2001, "Initial Review of PRSP Documentation," paper commissioned by the United Kingdom, Department For International Development for the Strategic Partnership for Africa. Overseas Development Institute.

Cardoso, E, 1992, "Inflation and Poverty," NBER Working Paper No. 4006 (Cambridge, Massachusetts: National Bureau of Economic Research).

Carvalho, S., and H. White, 1997, "Combining the Quantitative and Qualitative Approaches to Poverty Measurement and Analysis: The Practice and the Potential," World Bank Technical Paper No. 366 (Washington).

Cashin, P., P. Mauro, C. Pattillo, and R. Sahay, 2001, "Macroeconomic Policies and Poverty Reduction: Stylized Facts and Overview of Research," IMF Working Paper 01/135 (Washington: International Monetary Fund).

Cernea, M., 1985, "Putting People First: Sociological Variables in Rural Development," (London: Oxford University Press for the World Bank).

_____, 1996, "Social Organization and Development Anthropology," Environmentally Sustainable Development Studies and Monographs Series, No. 6 (Washington: World Bank).

Chambers, R., 1983, "Putting the Last First," (London: Longman).

Cornia, G., R. Jolly, and F. Stewart, eds., 1987, "Adjustment With a Human Face: Protecting the Vulnerable and Promoting Growth," (Oxford: Clarendon Press).

Dollar, D., and A. Kraay, 2001, "Growth is Good for the Poor," Mimeo (Washington: World Bank, March 2001).

Dulamdary, E., M. Shah, and R. Mearns, with B. Enkhbat and L. Ganzaya, 2001, "Mongolia: Participatory Living Standards Assessment," Report prepared for Donors Consultative Group Meeting, May 15-16, Paris. (National Statistics Office of Mongolia and World Bank, Washington).

Easterly, W., and S. Fischer, 2000, "Inflation and the Poor," World Bank Working Papers on Macroeconomics and Growth, No 2335 (Washington).

Elson, D., and N. Cagatay, 2000, "The Social Content of Macroeconomic Policies," World Development, Vol. 28, No. 7, pp. 1347–64.

Grindle, M. S., and J. W. Thomas, 1991, "Public Choices and Policy Change: The Political Economy of Reform in Developing Countries," (Baltimore and London: Johns Hopkins University Press).

Ghura, D., C. Leite, and C. Tsangarides, 2002, "Is Growth Enough? Macroeconomic Policy and Poverty Reduction," IMF Working Paper 02/118 (Washington: International Monetary Fund).

International Monetary Fund, 1998, "External Review of ESAF," (Washington: IMF).

_____ and World Bank, 2000, "Poverty Reduction Strategy Paper Sourcebook," (Washington), available at the Internet at *http://www.worldbank.org/poverty/strategies/sourcons.htm.*

_____, 2001, "Poverty Reduction Strategy Papers – Progress in Implementation," (Washington), available on the Internet at *http://www.imf.org.*

_____, 2002a, "Review of the Poverty Reduction and Growth Facility: Issues and Options," (Washington); available on the Internet at *http://www.imf.org/External/NP/prgf/2002/021402.htm.*

_____, 2002b, "Review of the PRSP Approach: Main Findings," (Washington) available at the Internet at *http://www.imf.org/External/NP/prspgen/review/2002/031502a.htm.*

Kanbur, R., 2001a, "Growth and Trade: The Last Redoubt?" Mimeo, Cornell University, December 2001, *http://www.arts.cornell.edu/poverty/kanbur/EasterlyWBReview.pdf*

_____, 2001b, "Economic Policy, Distribution and Poverty: The Nature of Disagreements," *http://www.people.cornell.edu/pages/sk145/papers/Disagreements.pdf.*

Kanji, N., and S. Ware, 2002, "Trade Liberalization, Poverty and Livelihoods: Understanding the Linkages," a review for the African Policy and Economic Department, Department For International Development, United Kingdom.

Killick, T., 1999, "Making Adjustment Work for the Poor," ODI Poverty Briefing. 5: May 1999. (London: Overseas Development Institute).

Kohler, H., 2002, Opening Remarks at the International Conference on Poverty Reduction Strategies. (Washington: World Bank/ International Monetary Fund), January 14-17.

McCulloch, N., Winters, A., and X. Cirera, 2001, "Trade Liberalization and Poverty: A Handbook," London: Centre for Economic Policy Research.

Milanovic, B., "The Two Faces of Globalization: Against Globalization as We Know It," Unpublished paper. (Washington: World Bank).

Mohan, G. E., Brown, B., Milward, A. Zack-Williams, 2000, "Structural Adjustment. Theory, Practice and Impacts." (London and New York: Routledge).

Moser, C, 1993, "Gender Planning and Development: Theory Practice and Training." (London: Routledge).

_____, 1996, "Confronting Crisis. A Comparative Study of Household Responses to Poverty and Vulnerability in Four Poor Urban Communities," Environmentally Sustainable Development Series and Monographs Series No. 8. (Washington: World Bank).

Nkusu, M., 2002, "Financing Uganda's Poverty Reduction Strategy: Is Aid Causing More Pain than Gain?" unpublished, (Washington: International Monetary Fund).

Norton, A., and D. Elson, 2002, "What's Behind the Budget? Politics, Rights and Accountability in the Budget Process," Oxford: ODI Publications.

Nyamugasira, W., and R. Rowden, 2002, "New Strategies, Old Loan Conditions. Do the New International Monetary Fund and World Bank Loans Support Countries' Poverty Reduction Strategies. The Case of Uganda," (Uganda: Uganda National Non-Governmental Organization Forum).

Oxfam, 2002a, "Influencing Poverty Reduction Strategies: A Guide," (Oxford: Oxfam International).

_____, 2002b, "Rigged Rules and Double Standards. Trade, Globalization and the Fight Against Poverty," (Oxford: Oxfam International).

Ravallion, M., 1997, "Can High-Inequality Developing Countries Escape Absolute Poverty?" Policy Research Working Paper No. 1775, (Washington: World Bank).

_____, 2002, "Looking Beyond Averages: A Research Program on Poverty and Inequality," Unpublished; DECRG, (Washington: World Bank).

Roemer, M., and M. Gugerty, "Does Economic Growth Reduce Poverty?" CAER II, Discussion Paper 4, March 1997, Harvard: Harvard Institute for International Development.

Robb, C., 1998, "Social Impacts of the East Asian Crisis: Perceptions from Poor Communities," Paper prepared for the "East Asian Crisis Workshop," July 13–14, 1998, IDS, (United Kingdom: University of Sussex).

_____, 2002, "Can the Poor Influence Policy? Participatory Poverty Assessments in the Developing World," Second Edition (Washington: International Monetary Fund and World Bank).

_____, and A. Scott, 2001, "Reviewing Some Early Poverty Reduction Strategy Papers in Africa," Policy Discussion Paper 01/5 (Washington: International Monetary Fund).

Shah, P., and D. Youssef, 2002, "Voices and Choices at a Macro Level. Participation in Country-Owned Poverty Reduction Strategies," Action Learning Program Dissemination Series, No. 1, Social Development Department (Washington: World Bank).

Stewart, F., 1995, "Adjustment and Poverty: Options and Choices," (London: Routledge).

Subbarao, K., and others, 1997, "Safety Net Programs and Poverty Reduction: Lessons from Cross Country Experience," Directions in Development (Washington: World Bank).

Turk, C., 2001, "Linking Participatory Poverty Assessments to Policy and Policy Making: Experience from Vietnam," Policy Research Working Paper 2526 (Washington: World Bank).

Uganda, 1999, "Poverty Status Report," (Kampala: Planning and Economic Development).

United Nations, 1997, "Sustainable Development and International Economic Cooperation: Women in Development," Report to the Secretary General, A/52/345 (New York).

Woolcock, M., 2001, "Social Assessment and Program Evaluation with Limited Formal Data: Thinking Quantitatively, Acting Qualitatively," Social Development Briefing Note No. 68 (Washington: World Bank).

World Bank, 1983, "The Social Dimensions of Adjustment: A General Assessment," Human Resources and Poverty Division, Technical Department, Africa Region (Washington: World Bank).

_____, 2001a, "World Bank Development Report 2000/2001: Attacking Poverty," (Washington: World Bank).

_____, 2001b, "Sourcebook on Macroeconomic Policies," (Washington: World Bank).

_____, 2002, "A User's Guide to Poverty and Social Impact Analysis," (Washington: World Bank) at *http://www.worldbank.org/poverty/psia/index.htm.*