Appendix 3: DFID Terms of Reference (Working Draft)
onPiloting Social Impact Analysis of Stabilisation and Adjustment Programmes

(July 26, 2001)

I. Introduction

1. The Fund and the Bank have agreed to work together to carry out poverty focused social impact analysis (SIA) of macroeconomic and structural policies in Fund and Bank programme countries. Guidelines for PRGF and PRSC supported programmes state that the associated documentation will include ex-ante analysis that considers how poor people are likely to be affected by these reform programmes and, when necessary, show the steps that have been taken to mitigate adverse effects and enhance positive ones.

2. In April 2001, the Joint Implementation Committee (JIC) of the World Bank and IMF produced a Concept Note outlining an approach to how SIA could be undertaken. Key paragraphs include the following:

   • SIA refers to the analysis of intended and unintended consequences of policy interventions - ex ante, during their implementation, or ex post - on the well-being of different social groups, with a special focus on the vulnerable and the poor (page 1, paragraph 4).

   • SIA is undertaken with the immediate objective of continually informing policy dialogue, choice and implementation within the broader objective of promoting sustainable poverty reduction and social inclusion (page 2, paragraph 7).

   • Countries themselves have the main responsibility for conducting SIA…with the support of donors and the World Bank…Policies for SIA should be selected by countries, in consultation with relevant stakeholders, including the Bank and the Fund (page 3, paragraph 8-9).

3. DFID considers SIA to be an important feature of the new environment for international development assistance, reflected in the PRS principles. The PRS principles include: (a) developing a comprehensive development strategy that has poverty reduction as its overarching and primary goal; (b) consultation with civil society; and, (c) ownership by national government. The PRS process has raised expectations that macro and structural policies will be developed and designed in a way that is significantly different to ESAF and previous World Bank supported structural reforms programmes. DFID believes that producing SIA which is government-led, discussing its findings with a wide range of stakeholders, and clearly laying out the implications of alternative policy choices for poverty reduction are necessary steps toward meeting these expectations.

4. Since the initial commitment was made to carry out SIA, DFID has engaged with the World Bank and IMF on how to take SIA forward in line with PRS principles. DFID
has strongly endorsed the approach to SIA laid out in the JIC Concept Note. In May 2001, a DFID mission to Washington DC led to agreement that DFID, in close collaboration with the Working Group of the JIC, will support the piloting of SIA in a small number of countries.

II. Purpose of the Pilot Studies

5. DFID believes that SIAs should be conducted in a manner that reflects serious commitment by donors to strengthening partnerships through developing a more informed and substantive dialogue on alternative macroeconomic and structural policies for poverty reduction. For these reasons, the DFID pilots will be carried out in direct collaboration with national governments, and will be part of the effort to build capacity to broaden and deepen the poverty assessments that inform policy making in the context of the PRSP.

6. The purpose of piloting SIA is to determine the best ways:

   6.1 To strengthen the poverty reducing dimensions of macroeconomic and structural reform programmes, through the development of viable ways to analyse the social impact of reform programmes on identifiable groups of the poor, and the discussion of alternative policy choices;

   6.2 To maximise the policy impact of analytical work, by enabling government to take the lead in setting the strategic agenda for policy analysis, and embedding analysis within national policy making processes;

   6.3 To strengthen national capacity for social analysis of the impact of macro/structural policy choices on the poor, and use of this analysis in policy dialogue, including with IFIs;

   6.4 To ensure that, in situations where national capacity is weak, donor agencies support undertaking SIA in a manner that reflects PRS principles of comprehensiveness and national ownership;

   6.5 To develop guidance in carrying out effective but practical SIAs in different policy environments, especially when conventional data are weak/unreliable.

7. DFID-supported SIA pilots will complement activities being carried out by the JIC, including an initial stocktaking exercise in some 12 countries. The stocktaking: (a) reviews the main reform programmes of the Bank to date; (b) examines how the social/poverty impacts of these programmes has been assessed ; and, (c) looks at what methodologies have been used by Bank/Fund country teams. Follow-up activities will include more substantive discussions between Bank Working Group members (situated within PREM) and Bank country teams in a select number of countries, in order to develop guidelines for how to undertake SIA, and the operational support that may be needed from headquarters.
8. According to the JIC Concept Note, the World Bank and IMF have a responsibility to report on the social impact of key policies in Bank and Fund programmes, as well as to refine policy recommendations and support on the basis of such analysis (Concept Note, page 5). The Concept Note suggests that, ideally, Bank and Fund will be able to draw for these reports on a government-led SIA that analyses the likely impact on the poor of the macro/structural reforms being planned or undertaken in the country. However, an issue arises in situations where a government-led SIA is either non-existent or deemed inadequate. In such circumstances, the Bank and the Fund have indicated that they will ensure that SIA is undertaken for relevant policy measures (Concept Note, page 5). DFID believes that in these circumstances, the Bank and the Fund have an obligation to manage SIA in a way that reflects PRS principles, including the promotion of national ownership and a more inclusive policy process.

III. Principles of SIA

9. In most PRSP countries, donors, government, NGOs and academic institutions are involved in on-going analytical work that addresses the impact of policies and programmes on poverty. However, this work is often carried out in isolation and driven by the requirements of individual institutions, many of which are not based in country. Often government is not in the driver's seat of the analytic agenda informing the reform programme, and is unable to shape the programme of work and/or easily tap its results for policy decision making. For these reasons, analytical work may have less impact on policy than would otherwise be the case. SIA offers the opportunity to draw together past and existing analysis within a framework that enhances government ownership, and to locate this analysis within an institutional context where it will directly impact on policy.

10. Increasingly, national NGOs and CSOs are expressing concern that the new agenda around PRSPs has failed to deliver both a different way of doing business and real dialogue around a broader choice of policy options. It is a matter of concern if NGOs and CSOs become disenchanted and disengage at an early stage in the formulation of a PRSP. SIA can facilitate an informed national debate about the macro programme, by making available an independent analysis of the poverty impact of proposed policies, and by making explicit the economic logic underpinning existing policies in a way that is widely accessible.

11. These considerations reinforce the importance of SIA being undertaken in a manner that reflects PRS principles. More specifically:

11.1 SIA should be nationally-led and embedded in national policy processes where they will have the greatest likelihood of informing/influencing national policy. SIAs should be broadly owned and contribute to national debates around poverty reduction. They should not become exclusively donor-driven;

11.2 SIA should be integrated into on-going PRS processes, so that they inform PRS policy analysis, formulation, implementation, and monitoring;
11.3 SIA should build on existing work. New analysis should exploit the wealth of data and analysis which already exists in-country, and avoid duplication of effort;

11.4 SIA should contribute to building national capacity for poverty-focused social analysis of macro/structural reforms. This includes the capacity of government to shape the nature of the analytic agenda and its capacity to demand, from national institutions, relevant research and other commissioned work;

11.5 SIA should be selective. Priority areas of work should be identified, relating to current and planned reforms in areas where qualitative and quantitative data availability mean that policy relevant information can be produced. The process of identifying reforms should be led by Government and involve debate with stakeholders.

IV. Scope of Work

12. SIA can potentially encompass a very broad range of issues and methodologies. The term "social impact analysis" also means different things to different people. Consequently, it is important to define further what DFID understands by SIA.

What is SIA?

13. A large body of work exists that is referred to as "social assessment". Typically, social assessments are carried out for large (often infrastructural) projects in order to understand their consequences for specific, affected communities. Alternatively, social assessments are used to identify "winners" and "losers" from structural policy reforms (civil service reform; privatisation, etc.), and to design compensatory measures. In addition, social assessments can be understood as referring to benefit incidence analysis of public spending in social sectors, and/or linking social sector policies to outcomes such as health and education.

14. DFID's understanding of social impact analysis of macro/structural programmes is distinct from any of these. The focus of SIA in this context is the implications that monetary policy, fiscal policy and structural reform measures have for socially-differentiated groups of the poor.

15. This represents a new domain for strategic policy analysis. Typically, impact-oriented analysis of macroeconomic and structural policy in PRSP countries falls into one of three categories. In many cases, the focus is the impact of discreet structural adjustment policies (privatisation; trade liberalisation, etc.) on growth. In some cases, analytical work looks at the impact of these policies on the income of specific socio-economic groups. Finally, there are studies that examine the impact of overall growth on the poverty headcount. However, this leaves a number of important gaps. SIA offers the opportunity to fill these gaps, by:
• Undertaking strategic synthesis that pulls together and reflects on the combined implications of existing analytic work;

• Analysing the implications for sector and structural policies of different macro policy scenarios;

• Analysing linkages between monetary and fiscal policy and poverty.

SIA can also add value by reviewing work that has already been done so as to identify critical areas that have been insufficiently covered.

16. In general, SIA requires context-specific judgements in relation to three key issues: which policy choices to analyse; what groups to consider when assessing social impact; and what approach to take in conducting SIA, including the methodologies employed.

Which Policies?

17. The range of possible subjects for SIA will depend on the current macro-economic characteristics of the country in which SIA is carried out. For example, the subjects of SIA will differ in a country where severe fiscal and current account imbalances exist, as compared to a country where stabilisation has been achieved but growth is negligible, which will be different again from a country which has achieved both stabilisation and growth.

18. The policy package for stabilisation and adjustment includes: removal of price controls; removal of taxes on exports; removal of import licensing; foreign exchange liberalisation; privatisation; rehabilitation of infrastructure (post conflict countries); civil service reforms; fiscal adjustment. Where stabilisation is at an early stage or yet to be achieved SIA can consider direct impact of specific reforms and propose policies for mitigating adverse effect (see External Evaluation of the IMF, 1998). In addition it should clearly set out the ex-ante assumptions regarding how and, who among, the poor will benefit from the goals of the reform package e.g. higher producer prices for exports; lower inflation, a lower fiscal deficit, reserve accumulation, improved access of the private sector to credit.

19. For post stabilisation economies the scope of SIA is wider, encompassing a greater range of structural reforms. SIA should examine whether ex-ante expectations of previous reforms have been met. It should distinguish between the direct impact of these reforms – their impact on the incomes of poor people and the publicly provided services available to them- and the indirect effects – how the poor have to benefited from the new economic environment created by adjustment e.g. labour market effects. The overarching goal of SIA in this environment should be to provide strategic analysis to inform policy choices so that growth becomes (more) pro-poor. SIA should therefore consider wider research questions (e.g. how do labour markets work? Is the present level of aid sustainable? Has environmental sustainability been adversely effected by privatisation/ agricultural reforms?) as well as the impact of individual reforms (what is the impact of privatising the Electricity Board?).

20. Analysis of the social impact of macroeconomic structural policies on the poor encompasses a vast area of enquiry. A process is needed to identify the range and scope.
of SIA given particular country circumstances. SIA pilots will be expected to identify a small number of policies and/or research areas to focus on. They will be highly selective and strategic pieces of work. Policy and research areas should be identified through a process that includes the following:

20.1 Identification of different policy interests/priorities for key national stakeholders (including government departments managing PRS processes and other relevant departments of government; civil society organisations; and donors), including issues that resonate with on-going national discourses around causes of poverty and the implications of stabilisation/adjustment paths;

20.2 Analysis of the dynamics underpinning moves to evidence-based policy making in-country, including how past and on-going analytical work has influenced (or failed to influence) policy choices and revisions, and the institutions and procedures this has implied;

20.3 Gaps in past and on-going/planned analytic work in terms of both the range of topics covered, and, for specific topics, the adequacy of the research questions for establishing policy-poverty linkages;

20.4 Final choice regarding policies to focus on should reflect both the issues that key stakeholder groups (especially within government) consider to be most strategic for poverty reduction in the immediate and near term, and issues where analytical work is likely to be most effective in terms of influencing policy choices.

What Groups?

21. In many countries where large percentages of the population fall below the poverty line, the question to address is who among the poor will win or lose out as reforms are implemented. SIA should strive as far as possible to differentiate the poor not only in terms of income/consumption measures but also in terms of social and livelihood categories. This means, for example, incorporating the way in which gender mediates the different opportunities and constraints that growth creates for men and for women. It also means incorporating what is known about differential opportunities among distinct livelihood groups. Knowledge about the poor should be drawn from a wide variety of conventional and non-conventional data sources, including qualitative studies and information. Where gaps in knowledge about socially-differentiated groups among the poor exist, these should be made explicit.

22. SIA should take account of the fact that the income of the poor is composed of wage and non-wage income and transfers in-kind, and that other, usually non-marketeted economic activities (e.g. subsistence agricultural production, fetching firewood and water, building social capital) are essential to the overall standard of living poor people are able to achieve.
What Approach?

23. SIA should explore key policy variables in terms of the transmission mechanisms whereby macroeconomic and structural reforms affect poor groups. Key macroeconomic policy variables and transmission mechanisms may include tax changes, shifts in expenditure composition, inflation rates, exchange rate changes, tariff changes, price liberalisation, real interest rate changes, shifts in the velocity of circulation of money, and the structure of the financial sector. To understand their impact on the poor SIA will need to address micro-level institutions, firms, enterprises and households, and analyse how social and institutional relations mediate the effects of macroeconomic change on outcomes at the individual and household level.

24. It is expected that SIA will make use of a variety of context and non-context specific methods. This will require strong and iterative collaboration between social development experts and economists/statisticians. Qualitative methods will be important to uncover causal linkages, to identify poor groups according to different forms of vulnerability and access to markets, and to uncover diverse livelihood strategies of poor households. Quantitative and statistical methods are needed to measure critical variables, establish relationships between different variables, and compare policy-related impacts so as to understand trade-offs and make policy choices.

25. Computable General equilibrium models (CGEs) that specify channels appropriate to country specific circumstances through which adjustment policies effect the distribution of income, have a key role to play in developing *ex ante* analysis of poverty impacts of macro policies. Not least, they allow comparisons of alternative adjustment paths to be made. However, data constraints (including the quality and consistency of national income accounting and other national survey data) mean that use of these models may not always be a realistic aim in the short term for many countries, and they should not always be relied on for the kind of *ex ante* impact analysis required here.

V. Inputs

26. DFID-supported SIA pilots will be carried out by a small team of international experts in collaboration with a small team of national experts. There may be different international teams for different pilot countries, depending on availability, skills and country experience. Teams will include a combination of social/macroeconomic analytical skills, but with strong background in interdisciplinary and team working. Approximately four pilot countries will be identified on the basis of specific criteria, including clear demand for SIA expressed by government, and the willingness of DFID country programmes to support the piloting of SIA and follow-up activities in support of nationally-owned SIA capacity building.

27. The main interlocutors for the research teams are likely to be representatives of Ministries of Finance, and/or other government departments that are responsible for negotiation on macroeconomic/structural programmes with IFIs and for national poverty reduction measures. DFID staff in-country will also be key contact points for the research
teams, as will World Bank/IMF staff in-country and in Washington DC. It is anticipated that IFI country staff will have been briefed by the JIC Working Group members in Washington DC, and will be ready to discuss and collaborate as required with the DFID researchers. Close collaboration is also expected from members of PREM (World Bank), including shared results of the initial stocktaking exercise.

28. Approximately 40 person days per international researcher, and 40 person days per national researcher are envisaged for the pilots. Research teams are expected to comprise two international plus two national researchers in total. Travel will include at least 20 person working days in country, possibly over two missions, and a short mission to the World Bank, Washington. The purpose of the Washington mission is to liaise with the JIC Working Group and, if need be, research the underlying logic and motivation of key reforms in the pilot countries. A literature review will be needed and researchers should allow for additional desk work in the form of data analysis/econometric work where suitable surveys exist.

29. It is expected that the pilots will be carried out in two phases. Phase 1 should constitute an initial scoping phase, and will be completed upon production of a Scoping Report (See Output 1 below). Work will then proceed to the production of Outputs 2 and 3. According to time availability of researchers and timing/circumstances in-country, it may be appropriate to break these phases into distinct missions.

30. The pilots will be jointly managed by IFID (Economist) and APED (Social Development Adviser), in close co-operation with the DFID country programmes, and under the broad remit of DFID's internal PRSP Group ("Lean and Mean"). APED will provide an administrative anchor for the project.

VI. Outputs

31. SIA pilots will produce three main Outputs, as follows:

Output 1: Scoping Report

32. Output 1 will be an initial Scoping Report, and will be submitted to DFID at the end of "phase 1" of the piloting work. Output 1 should include:

32.1 A stocktake of relevant existing/planned analytical work;

32.2 Identification of key policies/ research questions to focus on, including justification and explanation of how and why these policies/question as opposed to others were identified;

32.3 Identification of gaps in analytical work around these specific policies/ research questions in terms of transmission mechanisms and multi-dimensional poverty impacts;
32.4 Details of the proposed process by which SIA will be carried out, and specifically how it will be linked to existing policy processes, notably around the PRS;

32.5 Outline of how considerations for building long-term national capacity will be taken into account.

Output 2: Analysis

33. Output 2 will comprise the actual analysis of social impact of stabilisation and adjustment programmes. Output 2 should include the following:

33.1 Analysis of the evolution of the current macroeconomic and structural framework. This will include the economic logic and assumptions underlying macro and structural policies. It should cover reviews of past or existing macroeconomic, trade and other structural policies, and those presently under consideration or likely to be included in PRGFs/PRSCs with respect to a) their impact on growth b) their impact on the incomes and vulnerability of the poor and c) their impact on quantity and quality of services.

33.2 An elaboration of the transmission mechanisms through which the poor will benefit. This should include general as well as country specific knowledge about how social differentiation and socially-mediated relationships affect the opportunities for different groups to participate in and benefit from overall growth and/or specific policies.

33.3 A series of short studies that aim to fill the analytical gaps that have been identified, where available data makes this possible. This is likely to include combined use of qualitative and quantitative methods, and the tapping of "non-traditional" sources of policy-relevant information (for example, anthropological studies; CSO/NGO reports).

33.4 An analysis that helps to identify how the growth path can be made more pro-poor through well-sequenced, effectively implemented policies. This should include proposals on the basis of past experience and current knowledge as to policy changes or iterations could lead to greater poverty reduction. Specifically, where possible, alternative policy choices should be mapped out in terms of their projected consequences on poverty.

Output 3: Guidelines/Issues to Consider in Conducting SIA

34. Output 3 consists of an exposition of the issues, challenges and considerations that have arisen in undertaking SIA in the specific country context, as well as an elaboration of lessons learnt and an outline of guidelines for use in undertaking future SIAs.