2015 Development Policy Financing Retrospective

The methodologies for the assessment of the conceptual linkages between prior actions and poverty reduction and shared prosperity, and of the short term social and distributional effects of prior actions, were developed by poverty and social development specialists not involved in the DPOs under review. They were reviewed by other specialists in the Poverty Global Practice, social development specialists in the Urban, Rural and Social Development Global Practice and by members of the steering committee of the Poverty and Social Impact Assessment Multi-Donor Trust Fund.

1. Methodology for review of conceptual linkages between prior actions and corporate goals

The analysis will use a hybrid framework, combining the Hausman, Rodrik and Velasco (2005) growth diagnostics methodology with the Bussolo and Lopez-Calva (2014) assets-based framework. Following Dixit (2007) we do not use the Hausman-Rodrik-Velasco framework as a decision tree, but rather as a way to organize and discipline the analysis by identifying the range of possible constraints and drivers.

The Hausman, Rodrick and Velasco (2005) growth diagnostic is a top down approach. Motivated by a simplified growth model, the framework sets out several types of distortions. In a balanced growth path, the rate at which the economy grows is a function of the difference between the expected return to asset accumulation and the cost of those assets as seen by the private agents which are accumulating those assets. The greater the gap between the expected returns to asset accumulation and acquisition cost, the greater the investment effort.

In order to focus on the ability of the bottom 40 percent to latch on to the growth process, this top-down approach is combined with the principles of the Bussolo and Lopez-Calva assets framework. The Bussolo/Lopez-Calva framework postulates that the incomes of the bottom 40 percent depend on the level of assets—human, physical, financial, social and natural capital—that people own and accumulate; the intensity with which they are used, and the returns associated to those assets. The method aims to consider the constraints as well as facilitating factors to asset accumulation and their use. These have a direct impact on the income generation capacity of all households in an economy, but particularly on the poor and those belonging to the bottom 40 percent of the income distribution.

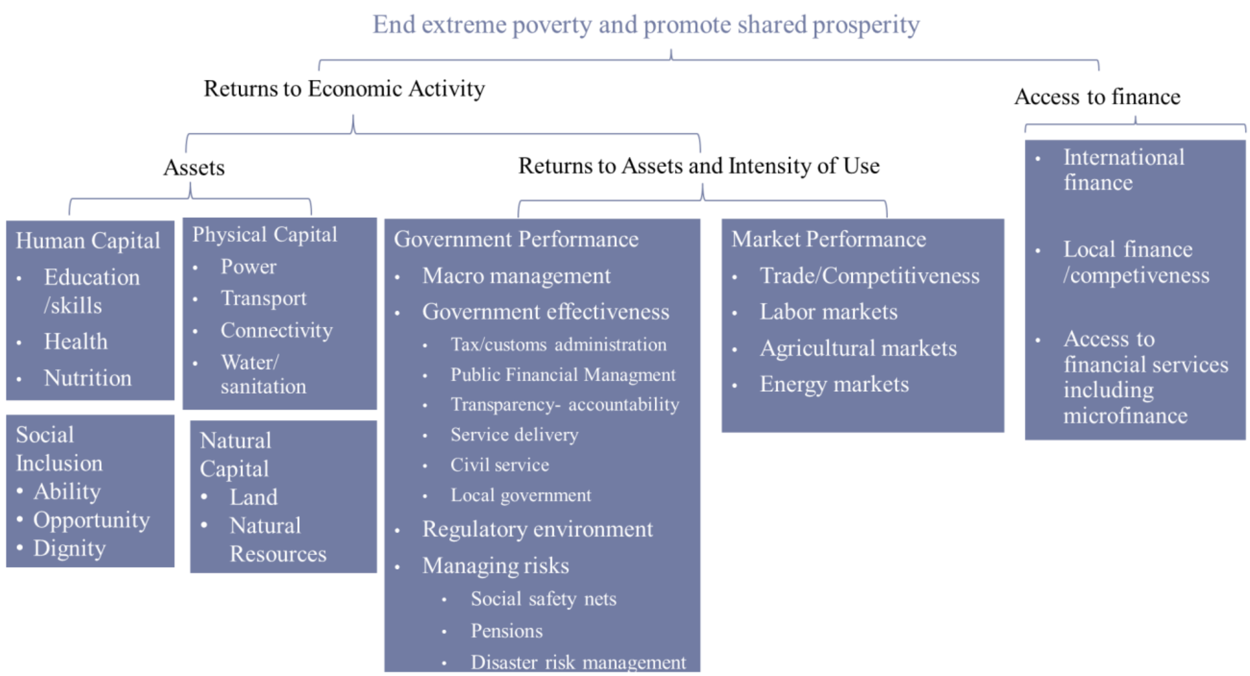
The proposed framework uses the concepts in the growth diagnostics and assets approach as a way to organize and discipline the analysis of potential transmission channels to poverty reduction and shared prosperity. The range of factors considered come from the concepts in growth diagnostics and assets-based framework. Each prior action is classified according to its policy content and its likely transmission channel to ensuring poverty reduction and income growth of the bottom 40 percent (see Figure 1). Specifically,

(a) Using the top-down approach of the growth diagnostics, private investment needed to spur growth will not take place either if there are low returns to those investments or if there is a high cost of finance. Low returns to investment occur either because there are low human and infrastructure assets or because the returns to investment have low appropiability due to government or market failures.

(b) Using the bottom-up assets approach, in addition to focusing on the assets of the bottom of the distribution, four fundamental policy areas are highlighted: (1) Equitable, efficient and sustainable fiscal policy and macroeconomic stability; (2) Fair and transparent institutions capable of delivering quality basic services; (3) Well-functioning markets, and; (4) Adequate risk management at the macro and household levels. These areas are seen as critical in determining both how intensely the poor can use the assets that they have, and what returns they obtain in doing so.

The top-down and the bottom-up approach are combined to form a single set of potential transmission mechanisms. Specifically, assets include natural capital and social inclusion[1] in addition to human and physical capital typically considered under the standard growth diagnostic. Macro management, government effectiveness and risk management are grouped as part of the aspects related to government performance, akin to the concept of macro or micro government failures in the growth diagnostic. This leaves market performance as an alternative reason for low returns to assets or low intensity of use, either because there are information or coordination externalities, or because there are other market imperfections that inhibit the poor from using and profiting from markets. Finally, the high cost or access to finance could constrain firms and households from investing and growing, with important implications for the twin goals.

Figure 1. Transmission mechanisms



Prior actions are classified as belonging to any of these areas, thus classifying the transmission channel that is expected to lead to poverty reduction and shared prosperity. In some cases, prior actions have multiple transition channels. For example, new legislation could enhance both the regulatory environment and improve trade and competitiveness (see Table 1). In this light, the sum of the transmission channels is higher than the sum of the prior actions being evaluated.

[1] Social inclusion is defined as the process of improving the ability, opportunity, and dignity of people, disadvantaged on the basis of their identity, to take part in society.

Table 1: Poverty and shared prosperity diagnostic protocol for classification of transmission channels to medium and long term impacts

Assets	Human Capital			- Any law, regulation or other policy that impacts the provision or quality of health or education - Scholarship programs or vocational training - Prior actions that affect nutrition
	Physical Capital			- Prior Actions impacting roads or other infrastructure - Prior Actions affecting sanitation - Subsidies intended for the purchase of new agricultural devices.
	Social Inclusion			- Establishment of social programs addressing the needs of excluded groups, e.g., people with disabilities, victims of violence, indigenous people - Any laws, regulations or policies that impact the quality of services provided to excluded groups (e.g., cultural sensitization of service providers) - Legislation and policies aimed at eliminating discrimination and ensuring equal rights and opportunities for excluded groups (e.g., Afro-descendants, Roma, ethnic minorities, women)
	Natural Capital			- Regulations affecting fisheries - Prior actions that affect mining - Regulations or actions affecting land use - Environmental regulations - Anything pertaining to water resources management that is not specifically about sanitation
Returns to Assets		Macro Management	Monetary	-Decisions affecting the financial sector, banks -Regulations and changes made to protect against financial crises -Regulations regarding financial institutions
			Trade/external	-Regulations improving ease of exporting goods abroad -Policies related to trade and exports -Changes in quotas
			Fiscal	-Improvements in SOEs related to management, profitability or efficiency. -Changes to limits on borrowing -Fiscal policy decisions or discussions -Decisions related to increasing tax revenues, whether: increasing taxes, implementing new taxes, or policies designed to make it more difficult to evade taxes -Passing of fiscal laws
			Tax /customs administration	-Any prior actions that involves altering administration of taxes or customs tariffs. -Actions aimed at clamping down on tax evasion (these also affect accountability)

Returns to Assets	Government Performance	Government effectiveness	Public Financial Management & Procurement	-Includes prior actions concerning Public Investment Management (manuals etc.) -Debt Management -Policies affecting the budget that are not simply budget publications -Any prior action related to procurement practices -Consolidation of Treasury Accounts -Prior actions related to International Public Sector Accounting Standards (IPSAS)
			Governance & accountability	-Includes prior actions related to EITI (Extractive Industries Transparency Initiative). -Asset declaration, budget publication or prior actions in any way intended to reduce corruption and/or promote transparency/accountability. -Some prior actions, involve both PFM and Governance & Accountability because they aim at budget formulation and transparency. -Prior actions aimed at Anti-Money Laundering
		Government effectiveness	Service delivery	-Establishment of single points of access to municipal and/or federal services to the population. -Improving the quality of the judicial system -Open data initiatives -Actions aimed at improving teacher and curriculum quality. Linked to human capital in this way -Establishment of new agencies, such as the "Sub-Secretariat of Policies for Women" (P147695) -Prior actions that improve the quality of a public service such as bus route or road infrastructure improvements -Improving emergency response performance -Improvements in national statistics -Creation of commercial courts -Development of performance based utility contracts -DOES NOT include improved targeting mechanisms for social services
			Civil Service Reform	-Changes in civil service recruitment of dismissal policies -Changes to civil service retirement schemes (also affects pensions) -Changes in civil service job classification.
			Local Governments	-Any prior action that affects municipal or regional governments. Actions taken by municipal governments themselves that do not directly affect the mode of governance ARE NOT categorized as local government.
	Government Performance			
		Regulatory Environment		-Submission of a law to Parliament -Enactment of a law

Returns to Assets				-Issuing an ordinance -Draft law introduced or discussed -Changes in how something is formally regulated or decisions about regulations -Modifications to a legal or regulatory framework
		SP & Risk Management	DRM - natural disaster	-Includes crop insurance Prior Actions -Legal or other policy framework adjustments related to climate change. National climate change strategies frequently occur. -Prior actions aimed at reducing the vulnerability to climate related disasters for at-risk areas.
			Pension systems	-Any prior action that is specifically about pensions. Pensions have their own category and DO NOT come under safety nets as below.
			Safety nets	-Prior actions concerning unemployment benefits -Changing of eligibility criteria or targeting mechanism for various benefits -Prior actions involving cash transfers
		Trade and competitiveness Trade and competitiveness		-Decisions made to improve quality of goods to export quality -Increase in services available to help businesses grow -Improved regulations on health and safety of workforce -Decrease in number of days/procedures to register a business -Improvement in electricity/connectivity/infrastructure for businesses -Decrease in cost to register a business -Improved ease of closing failing businesses -Staffing decisions to increase capacity for business inspections and regulation/monitoring -Laws to improve standards for businesses -Alternative dispute resolution for businesses -Decisions related to Public private partnerships -Laws related to intellectual property -Decisions related to firm bankruptcy -Policies for economic development /strengthening the country's economy -Laws related to entrepreneurship -Decisions to reduce wait time for customs -Decisions related to privatization of firms -Decisions related to credit bureau and credit institutions -Participation in international trade fairs
				-Decisions related to informal/formal employment -Decisions related to surveys and other labor force data

Returns to Assets	MKT Performance	Labor markets	-Decisions related to vocational training providers -Active labor market programs -Provision of employment counseling -Monitoring and evaluation of employment policies and programs -Policies to promote employment of vulnerable groups -Policies and laws regarding childcare to promote return to employment -Employment registries -National qualifications frameworks -Job matching for the unemployed -Decisions related to employment generation
		Agricultural markets	-Changes in pricing of agricultural goods/products -Changes in subsidies for production of agricultural goods/products -Decisions related to compensation/work conditions for agricultural workers -Irrigation -Access to markets and infrastructure -Improved knowledge of market prices or policies that facilitate fairer prices for agricultural products -Policies and decisions that affect the Ministry of Agriculture (or similarly named ministries) -Policies and decisions regarding slaughterhouses, milk/dairy, and meat production -Decisions related to assisting small-scale farmers -Agriculture insurance -Protection for seasonal agricultural workers -Funding for or policies related to Plant testing and Agricultural research -Food safety policies -Decisions related to Land management for state-owned agricultural land
	MKT Performance	Energy markets	-Changes in pricing of energy -Analysis on effects of energy tariffs -Energy subsidies for low-income users -Decisions around coordination, M&E in the Ministry of Energy (or similarly named ministries) -Policies/decisions and staffing changes made by state-owned energy companies -Energy efficiency in buildings -Changes in subsidies for energy -Decisions related to producing energy -Research and development of new/additional sources of energy

		-Decisions around meter testing -Energy policies -Settlement of government debts for energy utilization -Energy regulation
Access to Finance	Access to international finance	-Laws or policies related to improving conditions for foreign direct investment -Anti-money laundering and anti-terrorism financing regulations -Adoption of international accounting standards -Strengthening/introduction of credit bureaus -Changes to tax code that affect conditions for foreign direct investment
	Local finance competitiveness	-Decisions related to improving availability of financing -Improve farmers' access to local finance -Regulations for the banking sector -Strategic audits of local financial institutions -Laws related to Deposit and Credit Guarantee Trust -Laws related to banking licenses -Improvements of governance and standard operating procedures for banks -Provision of payment services and e-money products by the banks -Decisions to consolidate banks to make stronger financial institutions -Modernization of the framework for private equity and venture capital -Decisions related to Risk management
	Access to financial services	-Decisions related to providing microinsurance, microfinance, savings, microcredit, and other financial services for SMEs -Financial literacy initiatives -Provision of smaller minimum savings accounts -Improvements in record-keeping for all collateral and leasing arrangements -Specific initiatives to support microfinance for vulnerable groups

Source: World Bank.

2. Methodology for analysis of short-term social and distributional effects

The DPO retrospective assesses compliance with the Bank's Operational Policy (OP) 8.60, which requires the Bank to assess whether prior actions in DPOs are likely to have significant poverty and distributional effects, especially on poor and vulnerable groups. The 2015 retrospective assessed 1,378 prior actions for DPOs approved between the fourth quarter of FY2012 and the second quarter of FY2015. Following the 2012 retrospective, it classified each prior action's direct and short-term distributional effects on the poor and vulnerable. The main reference was the program document (PD) for each DPO, with special attention given to the PSIA section and the sections explaining the prior actions.[2] When the PSIA referred to a stand-alone report or other documentation, this was reviewed. In rare cases of high ambiguity, the TTL was contacted to get further information.

Whenever a prior action could potentially have significant direct negative distributional effects, it was classified as requiring a PSIA. Close attention was paid to three types of actions: 1) that the prior action marked a change in an existing policy, and hence were likely to have winners and losers; 2) a new policy with possible distributional effects, such as a new tax or tariff policy that increased the burden on certain groups; and, 3) a politically sensitive policy where evidence on the distributional effects is critical to avoid policy reversals. More details of this classification are provided in Table 2. Given that reforms often involve a series of steps, prior actions were counted as "needing" PSIA if they referred to any stage of a process where policy decision-making was taking place beyond the creation of a committee for a policy. For instance, in a series of prior actions aimed at reducing untargeted subsidies, PSIA was counted as not being required if the prior action merely supported a study or the creation of a committee. However, it would be needed if actual policies are being reviewed for implementation. Care was taken to avoid double counting in cases where PSIAs were needed for multiple prior actions aimed at the same reform.

In terms of classifying whether PSIA was conducted, an acceptable PSIA could fall into any of the following categories:

- qualitative analysis;
- quantitative analysis;
- mixed-methods analysis;
- table with different stakeholders identified and possible distributional impacts on each group tabulated;
- results of simulations reports in the PD, even if the full analysis was not attached;
- reference to a separate PSIA document or annex;
- reference to ESW completed earlier that was used to gather evidence for distributional impacts; and
- in some cases, the "social risk" or "consultations" section of the PD, where clear links were found with the specific prior action needing a PSIA.

[2] When language was ambiguous of referred to a new law or decree, the entire PD was read in more detail to get the required information.

Statements not backed by evidence, a general description of poverty in the country, or the poverty section at the beginning of most PDs was not counted as acceptable PSIAs.

Table 2: Classifying prior actions that need a PSIA

Changes in	Examples of prior actions that require a PSIA	Examples of prior actions that are typically ambiguous	Examples of prior actions that do not require a PSIA
Tax policy	• Changes in tax rates • Introduction of a new tax, especially those regressive in nature, for example, a VAT		• Clamping down on tax evasion • Taxes on goods consumed by rich households (for example, luxury goods) • Taxes on "bads," for example, tobacco, gasoline.
Social safety nets	• Changing criteria for eligibility • Reducing the size of the program		• Implementing systems to reduce the number of false claimants • Increasing the size of the program (that is, positive impact)
Social spending, for example, on health and education	• Reduction in spending	• "Freeze" in spending/benefits: could be negative in a context of high inflation; whereas "protected" spending may be positive	• Spending increases • New systems for payments to schools and hospitals
Energy tariffs and subsidies	• Removal of subsidy • Increase in tariffs		• Restructuring the power regulator
Other subsidies for example, housing mortgage	• Changes in the criteria for receiving subsidies		• Establishing monitoring and evaluation systems for subsidy schemes
Price mechanism, for example, cotton prices	• Drafting or implementing any new policy, or a change to an existing policy		• Creation of a committee to design a new mechanism

Employment policy for civil servants	• Changes in salary scales • Changes in recruitment and dismissal policies • Change in retirement benefits policy	• Freeze in salaries: could be negative in a context of high inflation	• Creation of a committee to design a new salary or recruitment policy • Increases in public salaries
State-owned enterprises	• Privatization or consolidation of state-owned enterprises		• An entity change
Quotas on production, for example, fishing	• Introduction of quotas • Reduction in quota volume		• Increase in quota volumes
Trade	• Increase in tariffs, especially on cash crops		• Simplified customs procedures

Source: 2015 DPO Retrospective.