

# Social impact assessment

## Discussion Paper

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### 1. Introduction

In the context of the OMC on Social Protection and Social Inclusion (SPSI), two key objectives are (a) achieving coherence between the renewed Lisbon strategy for Growth and Jobs and the SPSI strategy, and (b) promoting good governance, transparency and the participation of stakeholders in the design, implementation, evaluation and monitoring of policies.

Following the revision of the Lisbon Strategy in 2005, the coherence between the two strands of policy mentioned above was conceptualised in terms of 'feeding in' and 'feeding out'. *Feeding in* means that social policies need, ideally, to positively contribute to growth and employment – or at least, that they should not harm the Lisbon strategy. The concept of *feeding out* emphasises that the Growth and Jobs Strategy needs to foster the social protection and social inclusion of all citizens. Over the last two years, a systematic reflection has been conducted by the EC network of independent experts on social inclusion to assess the anticipated feeding in and feeding out effects of various policy documents. Initially, the exercise focussed on examples of synergies, rather than tensions and contradictions between policies. Social impact analysis can be seen as a more comprehensive and powerful tool in the evaluation exercise.

Within the European Commission, various forms of impact analysis (including social impact assessment) have become a 'routine' procedure in the course of the preparation of policy initiatives (EC, 2005). The Commission has put in place an integrated impact assessment system in 2002. DG Trade systematically applies sustainability impact assessment (which covers social along with economic and environmental impacts) for partner countries, during trade negotiations with third world countries.

Many EU countries already have some experience with various kinds of impact assessment. The 2008 Joint Report on Social Protection and Social Inclusion includes a recommendation from the Social Protection Committee to reinforce the analytical framework, including the social impact element of integrated impact assessments. Needless to say, this is potentially a major step forward in achieving greater coherence and consistency between social and other policies, both at the Member State and the EU level. As indicated in its recent Communication on Reinforcing the Social OMC, the Commission intends to encourage mutual learning between Member States on the subject.

The Slovak Republic is one of the countries that have enshrined impact assessment in a legal framework as a tool for the ex-ante assessment of policy proposals. All draft policy documents must include an annex identifying the budgetary, economic, environmental, employment and business environment impact. Following some experiments with mixed success, it was decided, in May 2008, to design a more detailed methodological framework defining the procedure, timing and key elements of the impact assessment. The Peer Review of November 2008 aims to

exchange experience between the peer countries in the field of social impact assessment in particular, from the perspective of the SPSI strategy.

On the world scene, the International Labour Organization (ILO), in collaboration with DG Trade of the EC, is promoting the use of social impact assessment in all negotiations about trade and foreign direct investments. Following the adoption of the Poverty Reduction Strategy in 2001, the World Bank and the International Monetary Fund (IMF) have made their operations in poor countries conditional upon the production of 'poverty reduction strategy papers' and routinely evaluate their interventions by means of 'poverty and social impact analysis' (Coudouel et al., 2006).

## 2. What is social impact assessment?

There is a wide range of impact assessment methods, developed with the aim of informing policy making, and applied in a variety of contexts ranging from trade negotiations to the publication of calls for tender. Examples include regulatory impact assessment (RIA) to examine the impact of regulations on the competitiveness of markets, economic impact assessment (relating to budget effects, economic effects, the impact on SMEs or rural areas), social impact assessment (sometimes confined to the impact on poverty, human rights, race or gender relations, children, people with disabilities...), environmental or (more broadly) sustainability impact assessment. In a few cases, such as in the UK or with the EC, integrated impact assessment frameworks have been developed. A further important distinction relates to the timing (ex-ante versus ex-post assessment). Whereas most assessment exercises have been conducted rather occasionally, modern legislation tends to impose systematic assessments of all initiatives within a given policy area.

This brings us to a more precise definition of modern social impact assessment procedures.

*Social impact assessment is the systematic ex-ante assessment of the likely social impacts of policy measures – possibly defined more narrowly as the impact on specific target groups or areas. The aim is to inform policy makers and the public opinion about the consequences, tradeoffs, synergies, side-effects of alternative policy options, so as to feed into the policy debate.*

The definition can be supplemented with some features of good quality social impact assessment:

- an explicit problem definition,
- comparison of different policy alternatives,
- evidence-based (quantitative and/or qualitative) assessment methods,
- involvement of key stakeholders,
- transparency of procedures.

The EC has developed, for its own purposes, a comprehensive toolbox and set of guidelines which have been gradually refined.<sup>1</sup> In this context, social impact analysis is supposed to cover (1) employment and labour market effects, (2) labour standards and rights, (3) social inclusion and social protection, (4) equality of opportunity and non-discrimination, (5) privacy protection, (6)

<sup>1</sup> [http://ec.europa.eu/governance/impact/docs/SEC2005\\_791\\_IA%20guidelines\\_annexes.pdf](http://ec.europa.eu/governance/impact/docs/SEC2005_791_IA%20guidelines_annexes.pdf)

good governance and participation, (7) public health and safety, (8) security, (9) social protection, health and education.

It goes without saying that high-quality social impact assessment is a demanding, time-consuming and expensive process, where a balance needs to be struck between the investment required and the importance of the measures that are assessed. Moreover, the statistical data, analytical capacity and stakeholder participation required for good social impact assessment cannot be developed overnight.

### 3. Relevance of social impact assessment for the OMC-SPSI

Specifically for the purpose of the OMC-SPSI, a research has been commissioned, involving five steps: the mapping of existing social impact assessment practice in the Member States, an in-depth analysis of a subset of interesting social impact assessment systems, a comparative analysis of 50 cases in the field of SPSI, recommendations for implementation in the future, and dissemination of the findings. This illustrates the importance that the EC attaches to social impact assessment in this field. Indeed, the potential impact of the tool on the quality of social (and other) policies should not be underestimated:

- To begin with, social impact assessment is a coherent framework enabling decision makers to check a number of potential key effects of policy measures. It thus raises *awareness*, and forces public authorities to inform themselves, each other and the public opinion about possible consequences of proposals.
- The ex-ante nature of social impact assessment (as we have defined it above) means that social impact assessment has a *preventive and proactive effect*: preventive in the case of policy initiatives in other areas, where the initiators may not at first have considered the potential (positive or negative) side effects on social cohesion. The proactive effect occurs where social impact assessment is applied in the design of social policies, as it may contribute to a more systematic analysis and comparison of alternative approaches.
- As the consequences of government initiatives (such as labour market measures) may occur in other areas (e.g. child care) social impact assessment will indirectly strengthen the *co-ordination* between policies. In the field of social inclusion in particular, the explicit 'modelling' of inter-relationships between relevant variables is an opportunity to integrate the Laeken indicators into a coherent framework in which interdependencies between key dimensions of welfare are made explicit.
- Apart from its contribution to evidence-based policy making, social impact assessment enhances the *transparency* of policy debates – especially when the legal prescriptions include the consultation of key stakeholders. social impact assessment can therefore also be seen as a support to the negotiation capacity of vulnerable groups.
- Most importantly, legal obligations relating to social impact assessment may restore the balance between different strands of policy. Wherever economic or budgetary power tends to

privilege 'hard' over 'soft' policy, mandatory social impact assessment procedures provide a buffer against single-minded economic interests.

Especially in the case of EU policy-making, where the economic dimension is more developed than the social dimension, this may help to protect disadvantaged groups from the potential damage caused by economic policies. At the same time, the evidence accumulated in social impact assessment may sometimes help overcome common prejudices about the negative effects of policies.

#### 4. Methodological framework

Despite the importance of statistical tools and analytical models, the key feature of a good social impact assessment framework is a 'roadmap' defining a logical sequence of steps to be taken between the problem definition and the final decision. Let us illustrate this sequence with a simple example: we suppose that one of the priorities of a National Action Plan on Social Inclusion (NAPincl) is to attenuate the impact of rising energy prices on the poorest households in the country.

As a first step, the *problem* needs to be clearly *defined*. For example, if 'rising oil prices are affecting poor households', it is important to determine the range of products, the amount of the increases, the groups that need to be protected and their size (incidence of the problem) etc. Inevitably, all pieces of the jigsaw need to be defined as well: who are the poor? What is the share of fuel expenditure in their expenses and how is it distributed in general? What alternative energy sources need to be taken into account? Etcetera. In order to measure the impact of a policy intervention, a baseline scenario ('no specific intervention') must be designed, including uncertainties if necessary (sensitivity analysis, risk assessment: e.g. probability and size of any further upward or downward price shocks). All this information will help justify whether action is legitimate, within what range of foreseeable events.

Secondly, *policy objectives must be made explicit*. General objectives ('preventing further impoverishment due to rising oil prices') should be broken down into specific and operational objectives (e.g. 'providing financial support covering 50% of their additional expenses' and/or 'assisting them to reduce their fuel consumption by x% within a year'). The objectives should be SMART (specific, measurable, achievable, realistic and time-dependent), and clearly linked with policy options as well as appropriate indicators to monitor the policies. Moreover, it is possible that new insights acquired during the analysis or the consultation process necessitate a redefinition of the specific objectives.

Thirdly, a good social impact assessment typically considers several *policy alternatives* (e.g. compensation versus reduced consumption or shifts to alternative energy sources), selected from a wider range of options. This allows decision makers to compare the relative effectiveness and efficiency of alternative measures against the baseline. Often, each of the policy alternatives actually represents a package of measures (regulation, financial transfers, sensitisation etc.).

The proper *impact measurement* occurs at this point, as a fourth step. Potential impacts are first identified; and their significance is assessed in a qualitative way. It may also be necessary to distinguish between different effects on different groups (e.g. tenants versus owners, users of

different sources of energy). Once a shortlist of impacts has been selected, one can proceed with the estimation of their direction and magnitude, using quantitative as well as qualitative methods. In practice, the depth and complexity of the analysis will depend on the available time, data, resources and capacity. Quantitative methods may range from 'simple' comparative static simulation of the redistributive effects of a measure to medium-term, dynamic models which take on board behavioural effects, the accumulation of debts and/or resources; from partial, sectoral models to general equilibrium analysis; from cost-effectiveness to cost-benefit or multi-criteria analysis... In our example, a household budget survey can be used to identify the share of oil and other energy consumption in family budgets. Different financial compensation schemes (income-contingent or universal, proportional or lump-sum, etc.) can be simulated to estimate their impact on the government budget as well as on the purchasing power of different types of households. However, it is also possible to simulate the same measures on a model of simultaneous equations reflecting consumer demand behaviour, or on a general equilibrium model. The latter may reveal that compensation measures tend to boost further price increases, whereas reduced energy consumption tends to contain them. The different approaches may also yield complementary information.

Finally, the different *options are compared* in terms of their effectiveness, efficiency and coherence. At this stage, it is important to include all significant impacts (positive as well as negative) in a qualified, comprehensive overview. Moreover, the coherence of each alternative with the wider framework of other policies needs to be evaluated. In our example, compensation will inevitably affect the government budget, possibly necessitating tax increases or economies on other expenditure that may induce other, indirect problems – either for the poor or for other groups in society. The alternative options can then be ranked in an objective and transparent way.

Once a decision has been made about the preferred policy mix, it is recommended to set up an appropriate set of indicators for the monitoring of the measures during their implementation.

Note that this roadmap is to be followed in interaction with the stakeholders, in order to allow for continuous participation and feedback. Whereas stakeholder involvement may at first be seen as a burden for the assessor, it will foster the acceptance and ownership of the recommendations by the end of the process.

## 5. A pioneering example: Poverty Impact Assessment in Ireland

'Poverty impact proofing' was introduced in Ireland in 1998 following the adoption of the first National Anti-Poverty Strategy, and in 2002 the Office for Social Inclusion was entrusted with the implementation of poverty proofing, in addition to the co-ordination of the NAPs/incl. According to the initial guidelines, the intention was to impose poverty proofing in preparing memoranda and (significant) policy proposals, enactments, annual budget proposals, the National Development Plan and other EU plans and programmes within Ireland. In the case of tax-benefit reforms, a static microsimulation model (SWITCH)<sup>2</sup> developed by the Economic and Social Research Institute (ESRI) is being used as a tool for the simulation of redistribution effects. A set of

<sup>2</sup> Simulating Welfare and Income Tax Changes. The latest version of the model is based on the European Union Statistics on Income and Living Conditions (EU-SILC).

guidelines, including a definition of poverty and related concepts, a questionnaire and a list of vulnerable groups was developed.

Reviews in 2001 and 2005 found a high degree of compliance with the obligations, but little significant impact on actual policies. Some critics qualified the proofing as a 'box ticking exercise'<sup>3</sup> and suggested that statements about the poverty impact of measures were not based on empirical evidence. On the other hand, the Department of Finance systematically uses the SWITCH model to assess the impact of tax and benefit reforms on different target groups. Still, it has been noticed that the very poor (homeless people and those who do not pay any taxes) are excluded or under-represented in the data on which SWITCH is based. Moreover, given the confidentiality and complexity of budget plans, poverty proofing is carried out in the very last stage of their preparation and no consultation of stakeholders is carried out. Nevertheless, the Office for Social Inclusion concludes that the dual objectives of poverty proofing (ex-ante assessment of the poverty impact of policies and awareness raising) remain valid. Moreover, the Irish experience is considered as a valuable example of mainstreaming for other EU countries.<sup>4</sup>

Some measures were taken to improve and strengthen the process, following the last review:

- the name was changed from poverty proofing to poverty impact assessment;
- a screening mechanism was introduced as a first phase, distinct from the full poverty impact assessment. The latter is carried out only for a selected set of policies where it is considered most relevant;
- a roadmap was developed, including consultation as the first (!) step; and the guidelines were clarified and extended, including clear definitions, information on data sources, indicators and measurement methods.

## 6. Issues and lessons from other experience

### 6.1. Mainstreaming and commitment

Social impact assessment as such is a policy tool, not a legal framework. Yet, proponents of the method tend to associate the method with a legal obligation to screen all policy initiatives on their social impact, as is the case in Ireland. This is probably the best guarantee that social objectives (including social inclusion) will be mainstreamed and inform policy design in all areas.

In most countries, however, social impact assessment has been applied rather sporadically. Mandatory social impact assessment rules are often advocated by the civil society but meet resistance on the part of (some) policy makers because they may imply a substantial cost and slow down the decision making process. Although this may be the fair price of quality in policy-making, a balance needs to be struck between the arguments of both parties. Legal enforcement may be desirable, but if it is perceived as excessively cumbersome, it may result in useless paperwork. This explains why the Slovak government, as well as Ireland and the EC, decided to

<sup>3</sup> Office for Social Inclusion (2006), p. 21.

<sup>4</sup> EU Joint Report on Social Inclusion, Brussels: EC, 2004.

start any procedure with a ‚light‘ screening in order to determine whether a full social impact assessment is desirable.

## 6.2 Vision

The labels ‚toolkit‘, ‚roadmap‘ or ‚process‘, which are often used to denote social impact assessment, correctly reflect that it is not in itself a guarantee for success, nor indeed a guarantee that the right questions will be asked. Indeed, social impact assessment is no guidebook for good social policy: it just helps frame the examination of policy proposals in a consistent way. The quality of this process depends more on the underlying strategic vision of the assessment group on social policy – and social inclusion in particular. It is important to bear in mind that so-called independent experts, including university researchers, are influenced in a more or less conscious way by existing paradigms of welfare policy. This also applies to government officials and, a fortiori, to politicians.

The exercise is therefore far from ‚neutral‘, as the selection of relevant impacts to be scrutinised depends to some extent on the assumptions which assessors have in mind.

- For example, from a traditional welfare state perspective, poverty is almost exclusively measured in terms of income and social security transfers are seen as the main instrument of anti-poverty policy. Closing the poverty gap will then be seen as the key objective of any policy measure, and impacts will be measured primarily in terms of the percentage reduction of the (income) poverty gap or headcount. Static tax-benefit models may be considered adequate instruments for social impact assessment from this perspective.
- By contrast, in the ‚active welfare state‘ paradigm, the beneficiaries of measures are seen as calculating people whose work behaviour is influenced by financial (dis)incentives. Within this paradigm, financial transfers are suspected of negatively affecting job search and reinforcing dependency. Simulation models will then include behavioural equations reflecting the (negative) influence of transfers on labour supply.
- A third possible paradigm is based on Sen’s capability perspective, with an emphasis on the extension of the poor households’ resources (in a multidimensional sense: human, material, social and cultural capital), functionings (health, learning, working, social participation...) and freedom of choice. This typically involves the use of more sophisticated, multidimensional and dynamic models of welfare. Depending on the perspective adopted, different types of causal relations may be identified for further investigation.

## 6.3 Capacity building

The above arguments illustrate how, along with the development of new and multidimensional approaches, there is a need for capacity building among all stakeholders: government services, civil society organisations, researchers etc. Therefore, although the EC’s initiative to promote social impact assessment in the Member States is to be welcomed, it is probably unrealistic to assume that a uniform EU methodology of social impact assessment can be implemented in all Member States in the short run. In our view, the best way to proceed would be a longer-term

strategy enabling national and EU processes of social impact assessment to gradually converge to common standards.

The party in greatest need of capacity building is civil society. In the field of social inclusion in particular, grassroots organisations are usually under-resourced and unfamiliar with scientific methods. The people experiencing social exclusion already have the greatest difficulty in keeping pace with the monitoring of the OMC-SPSI, because of its technocratic nature. The addition of social impact assessment as a new tool in the OMC should be conceived as a service to all stakeholders, providing transparent information and enabling them to understand and participate more fully in the decision making process. However, this can be achieved only if they are trained and assisted in grasping the meaning of the exercise.

#### 6.4 Participation and transparency

Given the risk of 'bias' in the vision of individual consultants or civil servants, participation is all the more important. The confrontation of perspectives of all stakeholders may contribute to a rich and balanced framework for social impact assessment. Both the EC and the Irish Office for Social Inclusion (OSI) have therefore put 'consultation' on top of the roadmap, meaning that the procedure starts with a consultation round and includes an iterative process of participation along the road.

Here again, the timing of the process should be kept in mind. The comprehensive EC roadmap provides for an overall duration of at least 7 months (and up to 2 years depending on the duration of the 'analysis' period). (It is unclear from the host country paper how long the overall procedure will take in the Slovak Republic.)

#### 6.5 Comprehensiveness

Impact assessments will be more fruitful and innovative, more efficient, and gain more credibility when different criteria are integrated into a comprehensive approach. The expected efficiency gain derives from the fact that an 'inflation' of fragmented, partial assessment procedures is avoided. The political gain relates to the combination of (economic, social, environmental...) perspectives on a given policy issue into a single assessment process. In this way, stakeholders are encouraged to consider any potential dilemmas between different objectives, and more balanced policy decisions may follow.

### 7. Questions to participants

In order to enhance mutual learning between Member States, we would like to collect some basic information on (social) impact assessment arrangements that are currently in place in the participating peer countries, before the start of the review. This information will allow us to start the Peer Review at a higher level. Also, in order to ensure that the Peer Review meets the expectations of participating countries and stakeholders we would like to know what the key issues for discussion are on which you think you could most benefit from mutual learning.



Therefore, please find a short questionnaire<sup>5</sup> below. Participants from European stakeholder networks are invited to reflect on different national contexts and to share their views on what they consider to be key issues.

- Does your country have any experience with (social or any other) impact analysis as a standard procedure in the preparation of policy measures?

If yes, please specify:

- When was it introduced? Was it established by law? Is it mandatory or not?
- In which field / to what kind of policies does it apply?
- What assessment criteria have been put forward?
- How extensive is the assessment in practice (in terms of timing, resourcing, stakeholder involvement ...)?
- What are the actual stages of a typical impact assessment (see section 4)?
- Who carries out the assessment? Who organises it? What other stakeholders are involved, in what stages? How is the objectiveness of the assessment guaranteed?
- Can you briefly describe an example<sup>6</sup> of how a given impact assessment has informed the debate / improved the consensus / influenced the final decision-making on its subject?
- Generally speaking, how do you assess the pros and cons of that impact assessment procedure? Is it carried out adequately? Are there any problems with regard to the timing, stakeholder involvement, scientific capacity, quality and comprehensiveness of the assessment...? What solutions have been proposed?
- Are relevant documents publicly available (guidelines, impact assessments...), e.g. on a website? Please specify.

If not,

- 1) Has any kind of (social) impact assessment ever been proposed? What were the reasons for not adopting the proposal? (Policy culture, capacity, methodological problems, resources...)
- 2) What stakeholders promoted the proposal, and what other stakeholders objected against it?
- 3) Have any alternatives been considered? Have such alternatives been implemented? What are their pros and cons?

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<sup>5</sup> The detailed questions are just meant to guide you in writing your paper. Please feel free to deviate from the questionnaire.

<sup>6</sup> Please select your example as closely as possible to the area of social inclusion.

- 4) Do you think (social) impact assessment could be implemented in your country in the short run? Why? Why not?
- Which pending or forthcoming policy proposals (either in your country or at the EU level) do you think would benefit most from social impact assessment - and poverty impact assessment in particular? Do you think that such assessments would be feasible? Please also consider issues relating to technical and administrative capacity, stakeholder involvement, policy evaluation culture, etc.
  - What are the key issues that should be discussed during the Peer Review?

## References

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