

CLOSING REMARKS

1ST MEETING OF THE IMPACT EVALUATION NETWORK (IEN) BOGOTÁ, COLOMBIA

Mauricio Cárdenas S.

Few fields in economics have developed as rapidly as impact evaluation. Moreover, few areas of knowledge in our discipline are as important for public policy, particularly in developing countries. This is illustrated by a raising concern from government agencies and multilateral organizations to produce independent and thorough evaluations of social and other public expenditure programs.

The impact evaluation network, a joint effort from IERAL, the IADB, and the World Bank, working under the umbrella of LACEA, is an excellent space to promote high quality discussions and exchange experiences on impact evaluation methodologies, applications and practical implementation. Without doubt, the network will promote further study in this field and thus, improve the quality of research and, hopefully, program design.

This is why I would like to congratulate the organizers María Laura Alzúa, Felipe Barrera, and Ana Santiago for launching this initiative which has started with flying colors given the quality of today's discussion. I would also like to thank the participants of this -very successful- first meeting of the network.

Effectiveness and efficiency: The importance of measuring costs

Economists working on impact evaluation should keep in mind that the main objective of their research is to appraise the performance of specific interventions at attaining the objectives that were designed to accomplish, in order to recommendations for future public policies, mainly -but not exclusively- in the social sector.

An underlying purpose of impact evaluation is thus to improve the allocation of scarce resources, to their most socially productive use. The question underneath is not only if the intervention had the desired impact but also if the impact of each monetary unit is lower than it should have been.

For this reason, research in this area should not only focus on average treatment effects on the treated, but should also consider the cost of the

program being evaluated. This requires the combination of the recent developments in impact evaluation with the traditional cost-benefit analysis.

Few studies have done this, as noted by the 2008 RED Report of CAF. According to them, less than 10% in a set of 150 impact evaluation reports include a cost analysis of the program in discussion.

One of the few studies that address this subject is Natalia Caldés, David Coady and John Maluccio (2006), *The Cost of Poverty Alleviation Transfer Programs: A Comparative Analysis of Three Programs in Latin America*. In their paper, they analyze the experience of Progres/Oportunidades in Mexico, Programa de Asignación Familiar (PRAF) in Honduras, and the Red de Protección Social (RPS) in Nicaragua.

Even though these programs were very different, not only in scope and coverage but also in their implementation, the authors find that all three programs had a positive impact on the welfare of the poorest families of the country and on primary and secondary school enrolment. It is interesting that Progres (a yearly budget of around 30 million dollars and 5 million beneficiaries) has the lowest administrative costs.

It should be stressed that cost-benefit analyses provide insightful information to comprehend whether the benefits of the intervention justify the fiscal effort. This issue is particularly important for developing economies, where social needs are more demanding and budget constraints more binding.

Partial vs. General equilibrium

Crucial to impact evaluation are the lessons that can be obtained beyond the specific setting of a particular program. Underscoring hidden effects not initially taken into account during the design of the program is the most challenging aspect.

It might be the case that these indirect and long terms effects could undermine the original objectives of the intervention, and, in some cases reverse the initial results.

In my opinion, these are the fields of study in impact evaluation with the greatest potential in terms of its usefulness for development knowledge and future public policies implementations. This “external validity”, as Ravallion (2007) points out, calls for the study of spillover and general equilibrium effects as well as for a through review of the institutional and historical context of the program evaluated.

Related to this, a key element is to understand the mechanisms through which the impact takes place. In other words, explore what processes determine the impact. This can be tackled by the use of intermediate indicators (and not final indicators), and by the utilization of structural models that describe in detail the decision making process of individuals (or families) over time and the interaction of different markets of the economy.

Structural models, which require stronger assumptions and sometimes a deeper understanding of incentives and inter-temporal decision making, answer a larger range of policy relevant questions, regarding changes in the program design and incentives, and ex-ante simulations of the impact under different circumstances, and even, in different settings.

For example, with the guidance of an economic model, the data originated in randomized experiments can be utilized to a much highest potential, than just by using the traditional methods (matching estimators, dif in dif, etc.). This is clearly shown by Orazio Attanasio and his coauthors, where a structural model is combined with randomized experiments of Progresá to analyze the effect of change in the structure of the program.

More precisely, they show that a budget-neutral switch of the enrolment subsidy from primary to secondary would have had a greater impact in school attainment. Specifically, an increase in the grant for children above sixth grade and the elimination of the grant for children below that grade would have resulted in a substantial increase in the enrolment rates of older children.

New empirical methods

As you have shown today, and as many experts recognize, no single method dominates the scene, and the implementation of each of them depends on the availability of data and resources, on the specific context and type of the program that is being evaluated and on the parameters of interest.

Researchers in the area of impact evaluation have to be imaginative in order to overcome the fundamental problem of “missing data”. A common feature is the lack of a proper baseline to deal with the counterfactual problem. All too often, policymakers favor the visibility of interventions, rather than expenditure in costly data collection, which has a payoff that is often delayed in time.

New research is aimed at overcoming these limitations. A good example is the development of the triple difference estimator (DDD) by Martin Ravallion, which allows the identification of impacts by observing participants' outcomes in the absence of the program (the so called counterfactual), when there is neither baseline dataset nor a randomized allocation of the treatment.

Often, good evaluations involve more than one method, randomizing some aspects and using econometric models to address the non-random elements of the program, for example.

The political economy of impact evaluation

Last, but not least, I would like to emphasize the importance of timing in impact evaluation. We need to design political institutions that internalize the importance of program impact evaluation by independent non-partisan professionals. This can only be achieved by reforms to the formal and informal budgetary rules. The rules should make program continuity contingent on evaluation.

I am asking for a more joint work by you and researchers interested in political institutions and the policymaking process. This is what could really alleviate the efficiency problems of public expenditures in the region.

Another key element for long terms policy implications is actually related to the proliferation of social programs inspired by the successful story of PROGRESA. Even though these programs have beneficial effects on enrolment rates, social and security coverage, among others, they may also promote informality, create a society dependent on transfers and increase the size and scope of public expenditure.