



## **What has DFID learned from the PSIA Process?**

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## Executive Summary

Since the first wave of pilots commissioned by DFID and the World Bank/IMF in 2001, Poverty and Social Impact Analysis (PSIA) has become more widely used as an analytical tool in policy-making processes. This has led to questions being raised about its effectiveness and several initiatives are underway to provide information on PSIA and their contribution to evidence-based, participatory and pro-poor policy-making. This paper is one such initiative and aims to review DFID staff experience of PSIA to date. This review has identified a growing interest in PSIA among national governments, DFID staff, PSIA consultants and civil society.

The review, commissioned by Policy Division in DFID, was undertaken by a small team of consultants in a tight timeframe. The team covered 11 countries/regions in interviews conducted with DFID staff (mostly DFID advisors in country offices). Due to time constraints, these have largely been self-selecting interviewees who responded positively to an invitation from Policy Division to participate in the study. The report provides a brief introduction of PSIA, examines DFID's experience of PSIA and draws out key findings and recommendations.

### ***PSIAs and the new aid architecture...***

Poverty and Social Impact Analyses (PSIAs) are generally *ex-ante* studies examining the likely social and poverty related impacts of a particular policy change. Drawing on a broad toolkit of methods, they attempt to predict the distribution of benefit and loss that will be generated by a proposed policy change. This form of *ex ante* analysis is particularly important to those groups who are likely to be adversely affected by the policy change as it opens an opportunity for policy makers to change or modify the policy choice or supplement it with mitigating measures.

Recent shifts in aid architecture have boosted the need for evidence-based policy-making. The introduction of Poverty Reduction Strategy Papers (PRSPs) and the increased proportion of aid channelled through general budget support have increased donor focus on the quality of the governance structures, including the use of *ex ante* policy analysis, that support good decision-making and policy formation and implementation. These changes also highlight the need for *ex ante* analysis of policy options which will maximise the poverty reduction impact (or in some cases result in the design and implementation of mitigating measures for policy change that will inevitably damage some groups).

The new aid architecture places greater emphasis on national ownership of development strategies and on the management of national resources and finances. Many donors are keen to support improved national policy formation and budgetary processes as a way of improving the development outcomes of the aid delivered and also reducing levels of fiduciary risk. In many countries, there is evidence that these new aid modalities, particularly PRSPs, have opened up policy debates to national stakeholders and have provided an opportunity for a national cadre of experts to be developed that would be capable of good quality poverty and policy analysis.

### ***The goal of PSIAs – strengthening national systems and processes...***

The emphasis on national ownership in the new aid architecture extends to PSIA. A main conclusion from this review is that while PSIA has value in its own right, their key goal, arguably, is to support evidence-based and poverty focused national processes of decision-making. DFID has a clear mandate to fund and support PSIA as part of its objective to support evidence-driven policy and poverty focused policies. It is important, therefore, that DFID takes action to ensure that the current emphasis

on PSIA resources and methodologies does not detract from PSIA's dominant objective to act as a tool to generate momentum around evidence-based policy-making.

In terms of the level of national ownership of PSIA's to date, the review has found that there is a broad spectrum of national ownership and engagement in PSIA's. This varied from governments viewing PSIA as a donor requirement or a donor led project to governments fully funding PSIA's. However, in general, few aid recipient governments would implement PSIA's, routinely, to identify the likely impact of proposed policy changes or to highlight suitable mitigation measures for groups likely to be negatively affected. One cause for this apparently limited enthusiasm is clearly a resource constraint. There is also a weak commitment amongst many national and local policy elites to poverty reduction. This is compounded by the limited role that evidence plays in many countries in national policy-making and reform. A key goal for DFID, therefore, must be to work towards supporting the development of national systems which use PSIA's as an integral part of their planning and policy processes.

### ***Experiences of identifying issues for PSIA...***

There has been a continuum of national government and donor approaches to identification and prioritisation of issues around PSIA's – from heavy reliance on donors at one end and greater levels of autonomy at the other. At one end of this continuum are a number of studies by the World Bank, where they have identified, designed and funded studies to examine the likely impact of a policy change in order to 'provide safeguards' for reforms that are, by and large, required for continued Bank support. Further along the continuum are examples of donors suggesting topics to government and offering to provide technical assistance. Other scenarios include governments asking for DFID's assistance, topics arising from donor-organised workshops and consultations or after discussions between donors and local research partners. There is limited experience so far of PSIA topics being identified as a result of internal government processes with little donor involvement.

This review does argue that it is possible that PSIA's on topics identified and prioritised by national governments will increase as they become more widespread, as capacity increases within government and as evidence-based policy-making becomes more embedded. Equally, examples in the review show how even when PSIA processes are not yet internalised into government processes, other factors (i.e. political stability) may converge, causing governments to seek out assistance for commissioning a PSIA.

### ***Experiences of implementing PSIA's...***

The review indicates a range of issues that have emerged when implementing PSIA's to date: the in-country capacity (or lack of it) to carry out PSIA's; the problems of accessing quality data; timing of PSIA's to ensure they are real-time policy analysis etc.

While some positive examples did emerge of high quality and independent research teams conducting PSIA's, the most common complaint has been the weakness of domestic research capacity and particularly the lack of research teams able to carry out both the qualitative and quantitative aspects of the analysis. This review has shown, however, that in some cases the very process of conducting a PSIA can actually help enhance data collection and research capacity.

There are many examples of creative and context-specific research methods used in PSIA's. In all cases, these choices have been affected by context, topic, institutional capacity, donor requirements and time constraints. Central to most PSIA's is the need

to integrate qualitative and quantitative research. While DFID is keen to ensure that both approaches are used in PSIA, it does not provide advice on how to maximise the effectiveness of integrating the approaches. In general, experience suggests that an iterative process between the two approaches is required so that the conclusions and recommendations in the PSIA are based on all the research findings.

### ***DFID staff engagement...***

There is limited evidence of a strategic approach to PSIA in DFID. The emphasis on embedding PSIA in national policy-making processes has meant that some DFID staff are reluctant to see DFID produce rigid guidelines and standards for engagement. They have instead preferred to remain flexible to act when opportunities arise in each country. This lack of a strategic approach to PSIA means that the role played by DFID advisors at country level in PSIA processes varies considerably by country and study.

The intensity of staff involvement has tended to depend on issues such as the advisor's history of involvement with PRS or PSIA processes, whether national level priorities encourage the investment of time and resources in PSIA-related processes, the degree of motivation the advisor experiences in being involved in PSIA and related activities, the focus of the particular study and so on.

The PAM team in Policy Division has provided PSIA-related support to a wide range of country teams. This has tended to focus on three main areas: assisting with the design and commissioning of PSIA (commenting on ToRs, recommending consultants etc); policy engagement and influencing (liaising with IFIs and bilaterals, identifying links between PSIA and broader policy issues etc); and institutional learning (sharing information on lessons learnt, commenting on darts etc). Country office staff interviewed indicated that the assistance given by PAM team members has been greatly appreciated.

There is a highly varied familiarity with the User Guide and the TIPS Sourcebook in DFID COs. Those who had used these resources had generally found them useful, but rather long.

### ***Donor relationships...***

Many second-generation PSIA have been commissioned by the World Bank, by DFID and by other bilateral donors since the completion of the pilot PSIA in 2001 (see Annex 4 for a partial list). The degree of donor co-ordination around PSIA varies greatly. In some countries there has been substantial collaboration around PSIA while in others it has depended on individual relationships or has been weak, with different donors approaching PSIA very differently.

This review highlights that donors do not appear to be in agreement about the key purpose of PSIA, about many details concerning their implementation nor about their primary end user. In particular, there appears to be differences of emphasis between the IFIs and DFID. The World Bank has tended to use PSIA primarily as a component of due diligence accompanying its lending operations and has tended to prioritise PSIA topics according to its reform agenda in a particular country.

DFID's approach to PSIA has differed from that of the World Bank. As mentioned above, the key constituency has been identified as national governments and PSIA have been seen as opportunities to increase the use of evidence in policy-making. This has led to DFID placing much greater emphasis on government involvement in PSIA processes; the production of 'real-time' results and the stimulation of national policy debates.

DFID can bring major influence on issues such as: balancing qualitative and quantitative research; ensuring a pro-poor focus and internalising PSIA processes within national governments. There are examples of DFID COs using co-funding and collaboration around PSIA to influence the other donors on these issues. Maintaining these links will remain an important role for DFID in the future.

***The role of civil society...***

Experience so far has shown that civil society has had limited opportunities to engage in PSIA and even where CSOs have engaged in national debates around PSIA they have had limited policy influence. Many PSIA studies have been inaccessible to civil society. In some cases this has been because the complex and highly technical content has challenged national CSO sectors with limited capacity. But also the differences of perceived audiences for, and purposes of, PSIA (i.e. a tool to stimulate national debate or for internal consumption by donors) has determined the level of civil society engagement, and in some countries civil society has, to a large degree, been excluded.

The review shows cases where the proposed policy change is highly contentious, civil society has commonly been kept at arms length to allow the government to carry out the changes without too much public debate. However, there are also cases where civil society has been brought into highly charged PSIA discussions as a way of widening understanding of the rationale for the proposed policy change.

PSIA do open up opportunities for civil society to build their capacity to engage in policy discussions and DFID is taking advantage of this opportunity in some cases to find and support CSOs to engage in future PSIA. However, ensuring meaningful civil society participation also relies on the PSIA design, and donors and PSIA consultants need to be sensitive to power differences in each society.

***PSIA effectiveness – understanding the political context...***

Another main conclusion of the review is that the political context and the existing culture of evidence-based policy-making is crucially important in determining the levels of engagement in PSIA and the extent to which PSIA-derived evidence is able to influence policy. DFID experiences confirm the importance of political and historical circumstances in shaping how evidence is used to shape policy. While robust evidence can be persuasive, it is still only part of the picture and power networks mediate the impact of evidence on policy.

Increasing the utilisation of such evidence is a complex process and it cannot be assumed that PSIA will necessarily deliver rapid change. Understanding the political dynamics of policy change, particularly those forces in society that may be supporting or opposing change, may improve the likelihood that evidence will be used to influence decisions and support successful policy implementation. Opening up opportunities for parliamentarians, civil society and the general public can be beneficial and can also help to make PSIA more influential in policy terms. Political and power analysis is an important start to understanding and predicting where it may be possible for research-based evidence to have an impact on policy-making.

***Policy influence...***

The type of policy change under review together with the context and the quality of the PSIA output strongly influence the potential impact that PSIA have on policy and decision-making processes. Different uses of *ex ante* analysis also clearly affect its impact on policy. The first approach to PSIA assumes a policy vacuum on a given topic whereby a number of policy alternatives can be considered and evaluated on

the basis of their respective distributional impacts. The second and more common approach to PSIAs is to apply PSIA tools to evaluate the likely impact of a policy decision that has already been agreed to raise awareness in governments and donors and, where necessary, suggest measures to increase benefits or reduce costs to specific social groups.

Often PSIAs are linked to policy reforms tied to IFI lending to national governments. In these cases, the question arises as to whether the extent of international consensus behind such policy changes together with intense pressure to comply actually limits the scope for an objective *ex ante* evaluation of alternative policy scenarios.

In most cases, it is still too early to evaluate the impact of PSIAs on policy outcomes. Furthermore, the complexity of policy processes means that it is not always possible to trace a clear link between PSIA recommendations and policy outcomes. While short-term policy influence is important, many DFID COs emphasised the role PSIAs could play in strengthening national policy processes more generally.

### ***Recommendations for the future...***

DFID CO staff interviewed were largely positive about PSIA but there were varying levels of commitment to being actively involved in PSIA processes in the future. In most cases, enthusiasm for future involvement in PSIAs was proportional to an individual's previous level of involvement.

The review makes recommendations for DFID country offices commissioning and managing PSIAs and for the PAM team in Policy Division. Examples of these recommendations include:

- focus on the PSIA process rather than simply the outcome;
- use PSIAs to widen levels of stakeholder participation around PSIAs – country level workshops are a good opportunity for building consensus;
- ensure the national (and sectoral) political context and policy-making norms are well understood before a PSIA is commissioned;
- develop and introduce methodologies for mainstreaming power analysis into PSIAs;
- develop guidance for sequencing and integrating qualitative and quantitative methods in PSIA;
- introduce internal capacity building to help ease inter-disciplinary work;
- maintain up-to-date resources on PSIAs;
- develop a database of consultants;
- contribute to standardising DFID's engagement (without being too rigid) by sharing best practice;
- provide examples of applying TIPS and User Guide procedures to specific country contexts;
- maintain donor links at the Head Quarters level and liaise with other DFID teams interested in PSIAs.

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(Please note that the authors' names are presented in alphabetical order, and do not necessarily represent the weight of their contribution to this report).

## **Disclaimer**

Responsibility for the interpretations expressed in this report, and any errors, are the authors' alone and do not necessarily reflect the views of the Overseas Development Institute nor the Department for International Development.

## Acronyms

ADMARC	Agricultural Development and Marketing Corporation (Malawi)
APR	Annual Progress Reports
CASCM	Central Asia South Caucasus and Moldova (DFID)
CAFTA	Central American Free Trade Agreement
CIDA	Canadian International Development Agency
CO	Country Office
CSO	Civil Society Organisation
DANIDA	Danish International development Agency
DFID	Department for International Development
EBRD	European Bank for Reconstruction and Development (DFID)
ECAD	Europe and Central Asia Department (DFID)
EU	European Union
GBS	General Budget Support
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
ILO	International Labour Organization
IFI	International Financial Institutions
IMF	International Monetary Fund
MDBS	Multi-Donor Budget Support
MDF	Multi-Donor Fund
MDG	Millennium Development Goals
NGO	Non-Government Organisation
NORAD	Norwegian Agency for Development Cooperation
PAM	Poverty Analysis and Monitoring (DFID)
PD	Policy Division (DFID)
PSIA	Poverty and Social Impact Assessment
PRSC	Poverty Reduction Support Credit (World Bank)
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Impact Assessment
SOEs	State Owned Enterprises
TIPS	Tools for Institutional and Political Social Analysis
TOR	Terms of Reference
UNDP	United Nations Development Programme
WTO	World Trade Organisation

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# **1. Introduction**

This study was commissioned by Policy Division in March 2005. It aims to provide an internal document, for circulation within DFID, which assesses the experience to date of country teams supporting PSIA (Poverty and Social Impact Analysis); to gauge PSIA's contribution to evidence-based, participatory and pro-poor policy-making; and to identify ways in which Policy Division might best support country teams involved in PSIA-related activities.

The terms of reference suggested that this report recommend improvements to PSIA methods and processes. However, the team has agreed with Policy Division that the information needed to provide effective guidance in these areas would be impossible within the limited time available for this study and based on a limited number of key informant interviews with DFID staff. It would also duplicate other commissioned studies and on-going exercises within DFID and the World Bank. Instead, we refer readers to the TIPS Sourcebook; the EUROADAD Project (due for completion in October 2005), outputs by the Policy Analysis and Monitoring Group in Policy Division, DFID and by the Poverty Reduction Group and Social Analysis and Policy Team in the World Bank. A quick overview of methods is also presented in Annex 4 of Bird, 2004, available at [http://www.odi.org.uk/PPPG/staff/kate\\_bird/index.html](http://www.odi.org.uk/PPPG/staff/kate_bird/index.html)

## **1.1 Structure of the report**

In the remainder of the first section, we describe the approach used to produce this review and provide a brief introduction to PSIAs. Section 2 presents the rationale behind PSIA and its role in the current aid architecture. Section 3 presents insights into DFID's experience in commissioning and conducting (Section 4) PSIAs. Section 5 focuses on experiences of civil society participation in PSIAs and in Section 6 on the influence that PSIAs have had on national policy processes. Section 7 raises issues relating to DFID's future funding of and support to PSIA processes, and Section 9 presents conclusions and recommendations, including suggestions for DFID's procedures for country teams attempting to provide governments with PSIA-related support. We also provide suggestions for improving donor liaison around PSIAs (in particular with the IMF and World Bank).

The terms of reference for this review is in Annex 1. Annex 2 contains an example interview checklist used during the data collection for this report. Annex 3 contains short summaries of DFID country teams' experiences of PSIA processes and their influence on policy processes, Annex 4 contains an updated list of DFID funded PSIAs, and Annex 5 PAM team support to PSIAs.

## **1.2 Our approach**

This review has been undertaken by a small team with a tight time constraint (24 days consultancy). Data collection has been based primarily on telephone interviews and interviews in person with DFID staff (mostly DFID advisors in country offices). These have been largely self-selecting interviewees who responded positively to invitations to participate in the study (summaries of these interviews are presented in Annex 3, at the end of this report). These interviews have been supported by a brief review of the PSIA literature, and the policy processes literature.

## 2. PSIA in Context

### 2.1 What are PSIAs?

Poverty and Social Impact Analyses (PSIA) are generally *ex ante* studies examining the likely social and poverty related impacts of a particular policy change. They attempt to predict the distribution of benefit and loss that will be generated by a proposed policy change. The evidence produced by PSIA can inform policy makers, civil society, parliamentarians and members of the public, improve the quality of policy dialogue and feed into policy design and redesign, its sequencing and the development of mitigating or complementary policies (Bird, 2004:7). PSIA also have a role in national M&E systems through impact monitoring. This can test the assumptions and predictions of any *ex ante* assessments, and ensure that policy adjustments are made where necessary.

PSIA draw on a broad toolkit of methods. Individual PSIA have applied methods from a range of disciplines (DFID, 2005). They use some similar methods to Environmental Impact Assessment (EIA) and Social Impact Assessment (SIA), but have more in common with Strategic Environmental Assessment (SEA), which also focus on informing the strategic policy level to improve policy formulation. They differ from EIA and SIA in that they have replaced a focus on *minimising damage* with a focus on *improving* development outcomes (Dani, 2003 in Bird, 2004).

PSIA are particularly important where a new policy may affect the livelihoods, income or well-being of particular sub-groups in the population. PSIA can highlight aspects of a policy most likely to generate substantial changes in well-being with a view to enabling policy makers to decide whether to implement the policy as planned, whether to modify/change the policy choice, whether to implement it along with mitigating measures or not to implement it at all.

Evidence generated by a PSIA does not automatically feed into policy identification or formulation, however. This depends on the role that evidence generally plays in national level policy and decision-making processes. Increasing the utilisation of such evidence is a complex process and it cannot be assumed that PSIA will necessarily deliver rapid change. Understanding the political dynamics of policy change, particularly those forces in society that may be supporting or opposing change, may improve the likelihood that evidence will be used to influence decisions and support successful policy implementation. Strong participation by national governments and a wide range of national stakeholders can also help to make PSIA more influential in policy terms.

Generally PSIA contain a number of 'key elements' (Box 1).<sup>1</sup> The elements show that PSIA have much in common with other forms of poverty and policy related analysis.

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<sup>1</sup> Item 10 should arguably appear as both item 1 and item 10. Domestic policy debate is necessary to identify the topic for PSIA and to consider how the results will feed into domestic policy formation. Alternatively PSIA should be more transparent about influencing the donors and the IFIs, rather than domestic policy formation processes. For more on this point, see below.

### **Box 1: Key Elements of the PSIA Approach**

- 1) Asking the right questions
- 2) Identifying stakeholders
- 3) Understanding transmission channels
- 4) Assessing institutions
- 5) Gathering data and information
- 6) Analysing impacts
- 7) Contemplating enhancement and compensation measures
- 8) Assessing risks
- 9) Monitoring and evaluating impacts
- 10) Fostering policy debate and feeding back in to policy choice

Source: Bird, 2004:8

Box 2 outlines DFID's best practice guidelines for PSIAs, and illustrates their particular focus on integrating evidence-gathering into national-level processes and supporting capacity development for evidence-based policy-making.

### **Box 2: DFID's PSIA Best Practice Guidelines**

#### **PSIA should:**

1. Play a central role in the policy process:
  - at the start (to inform policy choice)
  - during (to improve monitoring)
  - at the end (for lesson learning).
2. Provide a multi-dimensional and disaggregated view of poverty using qualitative and quantitative information from a range of disciplines.
3. Be country-owned and led.
4. *Facilitate broad stakeholder engagement.*
5. Be able to foster greater transparency and accountability.
6. Be part of national processes and support capacity development.
7. Be pragmatic and appropriate to purpose.

Source: DFID, 2005.

## **2.2 How PSIAs came about**

Traditional World Bank lending focused on infrastructure and development. As this shifted to structural adjustment, sector-wide approaches, programmatic and policy based lending, and from infrastructure to social sector services, there was an increased need for *ex ante* analysis of the likely social and poverty impacts (Dani, 2003). This need was exposed through a series of self-critical papers by the World Bank and IMF between 1997 and 1999 (Bird, 2004), and as a result of pressure from bilateral donors and civil society. A leading example was the external review of ESAF which showed that the negative impacts on the poor resulting from ESAF programme could be attributed to a lack of *ex ante* poverty and social impact analysis (David Booth in ODI, 2003a, cited in Bird, 2004).

### 2.3 PSIA and the new aid architecture

The need for the greater use of 'upstream' evidence in donor and national policy-making has been given a further boost by recent changes in the international aid architecture. Poverty Reduction Strategies (PRSPs) have required governments to align expenditure with poverty reduction goals. The monitoring and evaluation systems established in many countries to undertake *ex post* analysis of effectiveness needed to be combined with an *ex ante* analysis of policy options to maximise the development impact on the poor. Poverty and Social Impact Assessments (PSIAs) have been developed partly in response to this need.

Donors are also directing an increased proportion of aid expenditure through general budget support, effectively reducing their ability to trace the immediate impact of their aid. This has increased donor focus on the quality of government decision-making. It has also increased the need to understand how national level policy changes affect both aggregate and differentiated outcomes. PSIAs have the potential to do this.

Donor funding of PSIAs has occurred in a context in which donor country teams are committing a considerable amount of their time and intellectual energy into supporting government processes which will deliver pro-poor development. Achievement is being measured, in part, by progress towards the Millennium Development Goals. Governance failures which include highly centralised decision-making with limited involvement of either parliament or civil society, limited use of evidence in policy formation and weak downward accountability, are widely regarded as barriers to pro-poor sustainable development. They also, arguably, increase the risk that aid funds will be allocated according to elite interests, rather than with the aim of sustainable economic growth, development or poverty reduction in mind. The move towards larger proportions of aid going in general budget support places increased demands on government. Although there is widespread support of such changes, the international community recognises that without appropriate processes in place increased general budget support can increase risks. So, this shift is linked to a desire to see improved national policy formation and budgetary processes and reduced levels of fiduciary risk.

The processes surrounding the development of PRSPs have provided an opportunity for widening policy debates. In many countries they have involved parliament, civil society and other stakeholders and interest groups in a range of consultative processes. Depending on the country this has ranged from limited and cosmetic consultations through to involvement in finalising policy documents and making recommendations for improved implementation processes.

National researchers, consultants and policy analysts have commonly been involved in the drafting of PRSPs. This involvement has either strengthened the national cadre of experts capable of good quality poverty and policy analysis or has identified specific needs for capacity strengthening. In some countries it has forged new links between government and academia, creating new opportunities for researchers to feed their findings into policy debates.

PSIAs have been linked to PRSP processes in many countries. In Tanzania topics for PSIAs were identified through the PRSP review (see Annex 3, Box A10) and in Ghana the consultative processes surrounding the development of the GPRS M&E system resulted in the identification of a number of themes for impact assessment

and policy analysis. This created the impetus for PSIAs in Ghana, and a number of donors chose to fund particular PSIAs (see Annex 3, Box A1).

## 2.4 PSIA pilot studies

Since the formal introduction of Poverty Reduction Strategy Papers in 1999 the need to treat poverty and social impacts more systematically has intensified within the Bank (World Bank, 2003a). In 2000, the IMF and World Bank agreed to work together to carry out Poverty and Social Impact Analysis (PSIA) of major macroeconomic and structural policies in PRSP countries. In May 2001, DFID and the (P)SIA Working Group of the Joint Implementation Committee of the World Bank and IMF agreed to pilot PSIAs in a number of countries. These took place between 2002 and 2003. DFID pilot studies were undertaken in Armenia, Honduras, Mozambique, Rwanda and Uganda. Two further PSIA studies were carried out in Indonesia and Orissa State, India, under the direction of DFID regional offices (PRSP Synthesis Project<sup>2</sup>). The World Bank and IMF pilots were carried out in Chad, Guyana, Kyrgyz Republic, Malawi, Mongolia and Pakistan<sup>3</sup>.

An independent review of lessons learnt from the DFID pilot studies explains that “the primary aim of all pilots was to demonstrate the circumstances in which PSIA can be useful in assisting policy decisions. The Pilots were intended to provide lessons on methodology and management and on how to situate PSIA within national policy processes so as to maximise ownership and capacity building” (Evans et al, 2003:3).

DFID pilot studies adopted a pragmatic approach and focused on what was possible in ‘real policy time’ (only 40 days consultancy time was funded) and by using available information and knowledge within the country. The latter was achieved by having research teams that comprised of international and national researchers. DFID funded studies also emphasised that PSIA teams should combine economic and social expertise, that they should envisage government as the primary client for the PSIA results and that they should identify a government unit to work with on the PSIA piloting exercise (typically the PRSP-responsible unit in the Ministry of Finance) (Bird, 2004).

DFID’s approach was lighter than the World Bank’s ‘up-stream’ approach (in both resource and research intensity), which tended to be more concerned with the production of in-depth studies with robust analysis. These studies, which were well planned and resourced and included gathering primary data, showed how PSIA can be integrated into the Bank’s Poverty Reduction Support Credit (PRSC) supported reforms. They tended to focus more heavily on economic analysis, be stronger on quantitative effects but weaker on social and participatory analysis and have a more limited link into government. The contrasts in approaches used by DFID and the Bank stimulated considerable debate within the international development community and produced wide-ranging and relevant field experiences<sup>4</sup>.

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<sup>2</sup> See <http://www.prspsynthesis.org/psia.html>

<sup>3</sup> See

<http://lnweb18.worldbank.org/ESSD/sdvext.nsf/81ByDocName/TrainingMaterialPastEventsDfIDIMFWBtwo-dayPSIAworkshopOct2002>

<sup>4</sup> Summaries of both the DFID and World Bank pilot PSIAs are presented in *Table 2: An overview of pilot PSIAs* (Bird, 2004:20) and *Annex 3* of Bird 2004. For a useful one-page summary of the 6 DFID funded pilot PSIAs see also PRSP Synthesis Project (2003) ‘Learning the Lessons on PSIA – A Synthesis of Experience from the DFID Pilot Studies.’ PRSP Briefing Note, No. 8. October, 2003.

The findings from the pilot studies were shared at a workshop in October 2002 and are summarised in a DFID report (Hanmer and Hendrie, 2002<sup>5</sup>). In addition, a number of reviews have been written analysing the lessons learnt from the PSIA pilots (Evans et al, 2003; Hanmer and Hendrie, 2002; and Bird, 2004).

## 2.5 Beyond the pilots – PSIA mainstreaming

Many second-generation PSIAs have been commissioned by both the World Bank and DFID since the completion of the pilot PSIAs. For example, by the end of June 2005 the World Bank will have funded some 130 PSIAs in 58 developing countries (PRS Watch 11.3.05). DFID and other bilaterals have also commissioned or co-funded large numbers of PSIAs (see Annex 4 for a partial list). However, it is too early to say that PSIAs have been mainstreamed as a form of *ex ante* poverty-focused policy analysis and there is very limited experience of using PSIAs as a tool for on-going impact monitoring. Donors do not appear to be in agreement about the key purpose of PSIAs, about many details concerning their implementation nor about their primary end user. There is limited systematic use of evidence in policy making by aid recipient governments, as a result few would implement PSIAs routinely to identify the likely impact of proposed policy changes or highlight suitable mitigation measures for groups likely to be negatively affected.

Most PSIAs have focused on economic and social rather than environmental issues. This largely stems from an institutional decision made by the World Bank to de-link social assessments from social-environmental assessments and to instead link them to the more economic analysis of the PREM unit (pers. comm. Peter Poulsen). This has resulted in a temporary downplaying of environmental issues<sup>6</sup>. Within DFID, close links are being forged between the Policy Division teams working on PSIA and SEA, encouraging what is already a natural convergence.

Differences of emphasis remain between the IFIs and DFID, in particular, over the key purpose of PSIAs and their primary end users. The World Bank has tended to use PSIAs primarily as a component of due diligence accompanying its lending operations, and although they have wished to influence government policies, the focus on internal requirements has strongly determined their approach to PSIA, from the selection of priority topics through to data requirements and methodological design, team composition and the identification of end users. The World Bank has tended to prioritise PSIA topics according to their reform agenda (and lending commitments) in a particular country. PSIAs have responded to previous critiques and encouraged World Bank officials to identify the poverty and social impact of proposed reforms and they have required both economic and social analysis. Although results have often been highly aggregated (i.e. not identifying which income, livelihood, social or ethno-linguistic groups would lose or benefit from change), they are an improvement on the past. However, they have served a largely internal constituency.

Notwithstanding their due diligence function within IFIs, progress with PSIAs has still been relatively slow. The IMF/IEO evaluation of PRSP-PRGF linkages (2004) notes that “PSIA is only gradually becoming an input to program design” and the World Bank/OED PRSP evaluation (2004) says that “critical gaps still remain in linking

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<sup>5</sup> See [http://www.prspsynthesis.org/dfid\\_psia\\_issues.doc](http://www.prspsynthesis.org/dfid_psia_issues.doc)

<sup>6</sup> The DFID-funded PSIA on fuel subsidies in Yemen highlighted important environmental issues, and illustrated once again the interrelationship between environmental degradation, livelihood sustainability and poverty.

policies and programmes to poverty impact”. Much still needs to be done to improve the analytical process and to ensure that it helps encourage broader national debate on policies likely to lead to poverty reduction. As information sharing by officials has been very limited, very few civil society groups know what PSIA is meant to do or what it is doing in practice.

DFID’s approach to PSIAs has differed from that of the World Bank. The key constituency has been identified as national governments and PSIAs have been seen as opportunities to increase the use of evidence in policy-making. This has led to DFID placing much greater emphasis on government involvement in PSIA processes; the production of ‘real-time’ results and the stimulation of national policy debates. DFID has also placed greater emphasis on the identification of differentiated impacts of policy change on the poor and the building of national research capacity.

DFID COs have used PSIAs to engage not only with national governments and policy communities but also with the IFIs and other donors, attempting to use co-funding and collaboration around PSIAs to influence the donor community on these issues. The ‘DFID agenda’ is discussed in greater detail in Section 3.3 and Sections 4 to 8 of this report.

Moving on to discuss the apparently limited enthusiasm for PSIAs amongst aid-recipient governments, one cause is clearly resource constraints. Only a very small minority of PSIAs to date having been funded by aid-recipient governments themselves (Honduras, See Annex 3, Box A2). However, there is also a weak commitment amongst many national and local policy elites to poverty reduction. This is compounded by the limited role that evidence plays in many countries in national level policy-making and reform. (See Section 6, on the use of evidence in policy-making).

A full list of known PSIA is presented in Annex 4.

## **2.6 Current PSIA-related initiatives**

Outlined below is some of the work that the World Bank, the IMF and EURODAD are currently engaged in around PSIAs.

### ***Box 3: World Bank***

The World Bank published sectoral reform notes on its PSIA website in early 2005 which present an overview of studies on utilities, agricultural markets, land policy, monetary and exchange rate policy and trade policy reforms. These reform notes lay out technical issues that have arisen in examining the distributional impacts of policy reforms in these areas as well as providing some examples of tools and techniques most adapted to each issue. These particularly look at the ways to investigate linkages between the specific issue and poverty. A second volume of reform notes will be produced by the World Bank in the coming months that will look more in detail at issues of pensions, labour markets, decentralisation, public sector downsizing, taxation and transport.

The World Bank has developed a PSIA User’s Guide that is intended for practitioners undertaking PSIA in developing countries. It introduces the main concepts underlying PSIA, presents key elements of good practice approaches to PSIA, and highlights some of the main constraints and operational principles for PSIA. This User’s Guide highlights some of the key tools that practitioners may find useful to analyse the poverty and social impacts of policy reforms, but does not aim to be comprehensive in coverage. It is available in several languages.

During the Hague Conference in 2003, it was recognised that more work was required on tools for non-economic disciplines. DFID agreed to lead on this work by providing funding and working with other

interested parties. It was agreed to develop the TIPS Source Book (Tools for Institutional and Political Social Analysis), in consultation with the PSIA network which contains representation from bilateral, and multinational donors and some other organisations, in a format that can be published by the World Bank along with DFID. DFID is also providing funding for an economist secondee working in PREM, on PSIA issues.

The Poverty and Social Impact Analysis Team is currently working on a short review of PSIAs that will be included in the 2005 Comprehensive Review of the PRSP approach. This short review will include a stock-take of the Bank's involvement in PSIAs and an assessment of the PSIAs that have been completed. On the Bank's involvement in PSIA, the review will emphasise that the Bank is keen to mainstream PSIA in all Bank activities - the greatest achievement towards this aim being the passing of a development lending tool (OP8.6) in September 2004 which considers PSIA as the analytical underpinning of the lending tool. The review will look at the PSIAs that have been completed in the past two years and highlight that some PSIAs have been very good and have, in fact, informed the Bank's advice and recommendations while others have been bad. In reviewing the impact PSIAs have had on policy-making processes, the team will take a broad understanding of impact and include direct impact on reform and also the contribution made by PSIAs to a bigger change process. This is so the impact of PSIA is understood in those cases where the change required is long-term and there are many factors, including PSIAs, that determine the speed and direction of change. The Comprehensive Review will be presented to the Boards in the summer of 2005.

*Source: PRS Watch 10/03/05; World Bank website 15/03/05 and Stefano Paternostro, Poverty Reduction Team, World Bank, per. com. March 05*

#### **Box 4: EURODAD (European Network on Debt and Development)**

EURODAD, together with some of its members, embarked on a project of intensive work on PSIA in 2005. The work aims to:

- raise awareness about the importance of IFI analytic work
- monitor PSIA-related analysis by the IFIs in terms of its adherence to principles of transparency and participation, and to examine whether and how PSIAs are influencing policy choices
- communicate with relevant decision-makers if specific or systemic problems with PSIA are identified.

A main area of the work will be to raise awareness about PSIAs being undertaken in different countries and to highlight the potential of PSIA to contribute to more evidence-based policy-making. As part of its awareness raising/information gathering work EURODAD will be producing a simple "what is PSIA" flyer in three languages, a breakdown of what PSIAs are occurring in which countries and occasional 'PSIA updates' bulletins.

Together with a steering group of some of its members EURODAD will be carrying out reviews of some of the 130 PSIA studies initiated by the World Bank. This review will look at the process of carrying out these studies, the content of the reports and their impact on policy decision-making. Four in-depth case studies will be carried out in Vietnam (State Enterprise Reform), Ghana (Electricity), Tanzania (Crop Boards) and in Mali (Cotton Sector Reform) or Senegal (groundnut liberalisation). Information will be gathered from a broader selection of PSIA studies from across Africa, Asia, Eastern Europe and Latin America to feed into the overall review. It is hoped that the study's outputs will help convince the IFIs to improve practice around the implementation of analytical work.

The project is still in its initial phases, and it is too early for the delivery of its main findings. However, EURODAD has identified a low level of awareness of PSIA discussions and studies, even amongst practitioners involved with PRSP processes. DFID is helping to fund this work with a grant.

*Source: Lucy Hayes pers comm. 4/03/05; PRS Watch 10/03/05*

#### **Box 5: IMF**

In July 2004, the Fund formally set up a Poverty and Social Impact Analysis (PSIA) group of five experts within an existing division in the Fiscal Affairs Department. Area departments have now identified ten countries (Bolivia, Djibouti, Ethiopia, Kenya, Mali, Moldova, Senegal, Sri Lanka, Tajikistan, and Uganda) where PSIA support would be most valuable. Work plans have been developed by the group and

relevant country teams. The PSIA group has participated in four missions, addressing issues ranging from the liberalisation of energy prices to the response to macroeconomic shocks. Several more missions are planned for early 2005. If resources permit, the group will also undertake PSIAs in the IMF's core areas where no such studies are available. DFID has offered assistance to this group, in the same way that support is provided to PREM in the World Bank. Discussions are underway for a political economist to help improve understanding the political economy of fiscal and price reforms.

Source: PRS Watch 24/02/05

### **Box 6: The TIPS Sourcebook**

The Poverty Monitoring and Analysis (PAM) Team in DFID, in collaboration with the Social Development Division of the World Bank, have commissioned the Centre for Development Studies (CDS), Swansea to produce a sourcebook on **Tools for Institutional, Political and Social Analysis in PSIA (TIPS)**. The need for the Sourcebook was identified by the PSIA Network which has been consulted during the drafting process and invited to comment on major drafts. The Sourcebook is designed for two audiences: the '*doers*', the practitioners that carry out the research; and the '*users*' or commissioners of PSIAs who use the findings in their design of policies and programmes. It is designed to illustrate a range of tools and their application.

The Sourcebook is divided into two volumes. Volume 1 provides an overview of the elements that make up institutional, political and social analysis for PSIA, and develops further the understanding around some of the key methodological elements of PSIA – the counterfactual, transmission channels and identifying direct and indirect impacts. Volume 2 provides more detailed guidance and illustration of the use of specific tools or on specific areas of good practice. The Sourcebook includes a number of country case studies, 'checklists' and 'overviews' to illustrate issues raised.

It has been agreed to keep the TIPS Sourcebook focussed on tools for analysis, to complement the gaps in the User's Guide. However, in working on the Sourcebook, it has become obvious that many issue of process and effectively linking evidence into the policy cycle need to be addressed in considerable detail. DFID intends to pursue further work in this area covering issues that could not be addressed in the TIPS. This material will also be developed in consultation with the PSIA network.

The final draft of TIPS has just been issued and is being reviewed by DFID and Bank approval systems. The intention is to launch the document during the second quarter of 2005 as part of a network meeting.

## **3. Commissioning PSIAs: DFID's Experience to Date**

As we saw in Section 2, DFID's experience with PSIAs began with the DFID funded pilot studies and has grown and diversified since. The role played by DFID advisors at country level in PSIA processes varies considerably by country and study (see Annex 3, Box A1 to A12). Some advisors have been directly involved in every stage, including the identification of PSIA topics, the drafting of terms of reference for the PSIA team, commissioning and funding, commenting on results and debating the implications of results with policy makers. Others have had much more limited inputs. The intensity of staff involvement has tended to depend on:

- the advisors' history of involvement with PRS processes
- whether national level priorities (within DFID and government) encourage the investment of time and resources in PSIA-related processes
- the degree of motivation that the advisor experiences to become involved in:

- PSIAs
- pro-poor policy processes
- improving domestic policy-making
- enhancing the use of evidence in national policy-making
- the focus of the PSIA (e.g. some PSIA topics are seen as more relevant for economists than others)
- the advisors' role within DFID (e.g. social development advisor, economist, DFID consultant to country office)
- whether the PSIA is solely funded by DFID, or not
- (where the PSIA has been funded by another donor or is co-funded by DFID) the degree of donor collaboration and information sharing

### **3.1 Issue identification and prioritisation**

National government and donor approaches to issue identification and prioritisation around PSIAs have varied substantially. There has been a continuum, with heavy reliance on donors at one end to greater levels of autonomy at the other. At one end of this continuum are a number of studies by the World Bank, where they have identified, designed and funded a study to examine the likely impact of an agreed policy change, in order to 'provide safeguards' (condition for support) (Tanzania, ADMARC in Malawi, fuel pricing in Iraq – Boxes A10, A5, A4). DFID Vietnam, for example, expressed some concern that issues of relevance to the poor, such as the introduction of user fees, are not being addressed by PSIA-type research (Box A11). Further along this continuum, donors have suggested a topic to government and offered to provide technical assistance (DFID in Iraq and Pakistan – Boxes A4 and A7). Alternatively governments have asked for DFID's help (Russia, Tajikistan, Rwanda, Vietnam, Yemen – Boxes A8, A9, A11 and A12), topics have emerged after donor-organised workshops and consultations (Russia, Ghana– Boxes A8 and A1) or after discussions between donors and local research partners (Indonesia – Box A3).

There is limited experience so far of PSIA topics being identified as a result of internal government processes, with little donor involvement (a positive example is Honduras – Box A2). However, it is possible that 'home-grown' PSIAs will increase, as they become more widespread, as capacity increases within government, and as evidence-based policy-making becomes more embedded. Case studies from Russia, Yemen and Vietnam illustrate how even when PSIA processes are not yet internalised into government processes, other factors may converge, causing governments to seek out donor assistance in a PSIA, which can be used to demonstrate a PSIA process. For example in Vietnam, despite PSIAs not being high on the government's agenda, its guiding principle of maintaining political stability led to a request to DFID to carry out a PSIA in a poor area with many ethnic minorities, around the labour market impact of restructuring the state-owned Vietnam Coffee Corporation. In Russia, the need to avoid demonstrations by large voting constituencies (e.g. pensioners) may lead to the commissioning of PSIAs on social reform issues.

### **3.2 Support from Policy Division**

The PAM team has provided PSIA-related support to a wide range of country teams and also within other parts of Policy Division and to other divisions.

Country focused support has included support during various points in the PSIA process:

- design and commissioning –
  - assisting with drafting, and commenting on ToR (including on those funded by World Bank)
  - recommending consultants, identifying research partners and other stakeholders
- policy engagement and influencing
  - liaising with IFIs and bilaterals on PSIA-related issues
  - identifying links between a particular PSIA and broader country-level policy issues
  - streamlining consultative processes
- institutional learning
  - feeding lessons from one DFID country office to another
  - commenting on draft PSIA
  - participating in PSIA-related training events for DFID staff
  - discussing PSIA with other parts of policy division (e.g. on PSIA and agriculture or PSIA and gender issues)
  - developing links with other similar impact appraisal initiatives.

Examples of this support are presented in summary form in Annex 4.

Interviews with advisors in country offices (and PSIA consultants) indicated that assistance given by PAM team staff had been greatly appreciated, particularly in drafting TOR (Yemen, Pakistan, Boxes A12 and A7) and identifying international consultants (Yemen, Indonesia, Boxes A12 and A3). Participation by PAM team members at workshops in Pakistan and Honduras (Boxes A7 and A2) has also added a valuable resource to strengthen DFID country officer capacity for PSIA training and raising awareness. Further comments indicated that the PAM team provides an up-to-date resource on PSIA and an ability to apply lessons drawn from other countries and has thus contributed to the standardisation of the PSIA processes. PAM staff have also added insight into discussions around PSIA strategy and potential to influence IFIs (Tanzania, Box A10).

### **3.3 Working with other donors**

DFID interviewees report on highly differing levels of donor coordination in-country. The World Bank is often the only other donor engaged in PSIA (Tanzania, Pakistan, Boxes A10 and A7). In some countries there has been substantial collaboration around PSIA (Honduras, Box A2), while in others the process has depended on individual relationships (Central Asia, Box A8). In some instances, although donor relationships are good, there is no mutual accountability (Malawi, Box A5), and in others donor collaboration around PSIA is weak, with different donors approaching PSIA very differently. For example in Tanzania and Vietnam (Boxes A10 and A11), DFID country offices are keen to encourage the World Bank to open out PSIA processes and increase government involvement and in Nepal, DFID Nepal has occasionally had to guide discussions between the World Bank and UNDP over their differing approaches to PSIA-type analysis (Box A6). In some countries the vastly differing budgets of different donors has influenced the dynamics of collaboration (Central Asia, Iraq, Boxes A8 and A4). In Honduras, a workshop held in November 2004 aimed to harmonise World Bank and DFID Honduras approaches to the use of quantitative and qualitative methods in PSIA (Box A2). Furthermore, a multi-donor fund has been established by DFID Honduras to support activities such as PSIA.

There is a general consensus that DFID can use its good relationships (either institutional or based on personal relationships) to positively influence World Bank engagement in PSIAs. DFID Vietnam for example sees its role as ‘bringing a human face’ to otherwise technocratic PSIA exercises.

### **3.4 Use of PSIA resources: User Guide and TIPS Sourcebook**

There is a highly varied familiarity with the User Guide and the draft TIPS Sourcebook in DFID COs. Some have heard of the resources but only a smaller group has used them, commenting that they had found them very useful, but rather over long.

## **4. Implementing PSIAs: DFID’s Experience to Date**

### **4.1 PSIA teams and support for domestic research capacity**

Interviewees indicated a wide range of in-country PSIA-related research capacity. Some highlighted positive examples of high quality and independent research teams conducting PSIAs, for example, SMERU in Indonesia (Box A3). In other instances there was concern that independence may have been compromised by the PSIA being led by a research team ‘very close to the government’, as in Armenia (Box A8). In Russia, local and international research teams worked together on a PSIA of housing reform. Initially Russian experts feared that their work might be criticised by the international consultants and that this process would negatively affect their reputation. Intensive training for the local team at every stage of the research process improved the situation and overall the joint national and international team performed extremely well (Box A8).

A more common complaint has been the weakness of domestic research capacity. A number of respondents highlighted the challenge in identifying research/consultant teams with a sufficient range and depth of skills and experience. Teams are generally stronger in quantitative or qualitative analysis, and it has been difficult to identify individual specialists capable of combining the two, or recruiting teams with a good balance. In Honduras, the difficulty in identifying suitable national researchers was overcome by commissioning a Mexican consulting firm to undertake the quantitative analysis and CARE to provide the qualitative inputs (as recommended by DFID UK) (Box A2). It was observed by DFID Malawi that the government’s very weak capacity for research, economic analysis and evidence-gathering is a major issue that is relevant to most sub-Saharan African countries. This is a long-term issue due to the difficulties in retaining qualified staff (rapidly promoted to better paid posts within government or international organisations). DFID Malawi suggested that currently, the most realistic objective is to seek to develop capacity in government for commissioning and overseeing external consultants. However, Government capacity will still need to exist to use the results of research effectively alongside PRSP monitoring and evaluation and MDG tracking (Box A5).

There are some good examples of PSIA processes helping to enhance research capacity. This happened in Honduras, as a result of links being built between the government institution co-ordinating PSIAs and the University. The DFID brokered alliance between UNAT, the government body responsible for PSIA oversight, and the University, led to bibliographic research for PSIAs on minimum wage, fuel reforms and CAFTA being carried out by groups of students, whose inputs were used

by PSIA consultants. A couple of students were later hired by DFID Honduras, and one was hired by UNAT (Box A2). In Ghana, each PSIA has had two oversight committees: the technical committee and the steering committee. The technical committee members were experts and technocrats from relevant stakeholder institutions: government departments, universities, donors, CSOs and were responsible for reviewing all stages of the process. The steering committee members were ministers and heads of the departments and CSOs. Their role was to give policy direction and ensure that results influenced policy (Box A1).

In addition DFID COs are responding to this weakness in national research capacity by funding research institutions and data-gathering institutions (e.g. REPOA, a Tanzanian policy think tank co-funded by DFID was involved in a PSIA study in Tanzania) (Box A10).

## **4.2 Choice of methods**

The interviews brought to light many creative and context-specific experiences of research. Institutional capacity, context, topic, donor requirements and time constraints all had an impact on the choice of methodology.

The political history of the Central Asian republics has led to a particular set of traditions within research and government statistical systems. These differ from those in the West leading to divergent expectations around survey construction, sampling and data analysis. Work on quantitative sampling methodologies and qualitative research is relatively recent and has developed following the collapse of the Soviet Union (previously surveys were conducted in the same way as a census – with 100% coverage). This has had a significant impact on the style of PSIAs in this region (Box A8). In Iraq, security risks currently prevent the collection of primary data, therefore the PSIA on fuel subsidies is likely to be confined to a secondary analysis of household surveys (Box A4).

In Ghana the choice of policy issue has had a major impact on the selection of methods. The livelihoods analysis used in the modernisation of agriculture PSIA worked well and is now being used by research teams in the main university. The team undertaking the PSIA on vulnerability chose to use the World Bank's Social Risk Analysis framework. The government plans to implement findings from the PSIA and is discussing whether this would be supported by developing a vulnerability framework more suited to Ghana (Box A1).

Donor requirements have also influenced the methodological approaches of PSIAs. Interviews suggested a widespread understanding among DFID staff of PSIAs as encompassing both quantitative and qualitative methodological approaches. For example, until recently, PSIA studies undertaken in Honduras have been much stronger on economic analysis, and weaker on social, political and institutional analysis, but interactions between different parts of DFID helped to unpack a deeper stakeholder analysis and assessment of distributional impact in planning the fuel tax PSIA (Box A2). In Pakistan, the intention to provide the Government of Pakistan with an example of a manageable and easily replicable PSIA in real policy time (though unfortunately this has not been achieved), led to the TOR specifying that research would only collect qualitative primary data and rely on secondary sources of quantitative data (Box A7). A number of comments pointed to the lack of a similar multi-dimensional approach within the World Bank, where highly technical exercises based on economic modelling have prevailed in PSIAs (Central Asia, Ghana, Tanzania, Vietnam, Boxes A8, A1, A10 and A11). Interestingly, in Yemen, the government minister who commissioned the DFID PSIA commented that he would

have preferred the PSIA findings to have focused more on macro-economic issues, rather than on the socio-economic distributional impacts which the conclusions mainly consisted of (Box A12)<sup>7</sup>. This suggests that PSIA's focusing on social impacts are not automatically embraced even by governments who are convinced by the need for in-depth economic analysis.

Time constraints have at times directed methodological decisions. For example in the Yemeni PSIA, the time allocated to the research only allowed for a limited amount of participatory research to be carried out. Quantitative and macro-economic findings were drawn from the detailed household survey carried out previously by the World Bank, thus optimising use of time and avoiding duplication (Box A12). In Ghana, time constraints placed on many of the PSIA's led to limited opportunities for primary data collection. On the other hand, there has also been a tendency to put resources into primary data collection at the expense of focusing on the key questions (Box A1).

In Indonesia, time constraints (PSIA limited to 6 weeks) also imposed limitations on methodology, in particular the scope for primary data collection. The size and diversity of Indonesia led to a couple of interesting case studies being selected, one in Java, where the landless poor would have been affected to a greater extent by import tariff increase, and one in Sumatra, with a prevalence of rice producers. The development of a Policy Interest Matrix to examine political processes was felt to partially offset the lack of in-depth qualitative work, which was made impossible by time limitations. The Matrix involved identifying key players in the policy process, their relative influence and desired outcomes (official and informal). Key informant interviews, printed documents, media articles and triangulation between these various sources were used to complete the matrix. The process confirmed that even strong data may only have partial influence over policy outcomes, and may be overridden by political players with vested interests. The need for creativity and flexibility in adapting research methodology to different country contexts and time pressures was noted (Box A3).

### **4.3 Integrating qualitative and quantitative approaches**

A key issue that is central to many PSIA's is how to integrate qualitative and quantitative research.

In Russia and Honduras, workshops have been held in collaboration with the World Bank with the aim of harmonising qualitative and quantitative techniques in PSIA's (Boxes A8 and A2). DFID Honduras in collaboration with DFID Policy Division (PAM team) successfully carried out a regional workshop in November 2004 addressing methodological balance issues. The topic was touched on but not discussed in depth. DFID Honduras expressed concern regarding the World Bank's apparent caution in moving towards a balanced qualitative-quantitative perspective and engaging in systematic qualitative social analysis. It was noted by DFID's Statistics Advisor that the lack of a systematic approach to their integration can lead to a weakness in final outcomes.

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<sup>7</sup> The World Bank had already undertaken Page: 14 an economic PSIA which used household data to examine impacts. It was therefore agreed with Yemeni counterparts that the DFID-commissioned PSIA would focus more strongly on social issues and would also help to develop a communication strategy. Although there was still a desire for a more detailed economic analysis of the indirect effects, time constraints meant that this could not be included in the same study and it was recommended that a report focus on these in the future.

In Russia, DFID ECAD are working with the World Bank to introduce the collection and use of qualitative data alongside quantitative evidence. A need for training (of government staff and local partners) was identified to clarify the definition of PSIA and increase an awareness around analytical and causal processes in policy-making. This objective was partially achieved in Russia, through a workshop led by the World Bank. Training is also needed to increase national capacity for qualitative research and economic modelling (Box A8).

In Indonesia, the process provided an excellent example, within DFID Indonesia, for integrating qualitative and quantitative approaches. The Social Development Advisor stated her increased appreciation and understanding for CGE models and praised her economist colleague's willingness to embrace qualitative approaches. However it was noted that the study would have benefited from a more iterative sequencing between qualitative and quantitative research. The Indonesian example also showed the need for open-minded consultants, willing to work cross-sectorally. The CGE consultant's report required considerable deconstruction from the research team, in order to unpack underlying assumptions. The consultant attended an initial workshop where his findings were challenged but was very reluctant to provide any further involvement or provide training to the local research partner (Box A3).

A need has been identified for a systematic approach to integrating qualitative and quantitative work. While DFID often uses its leverage to ensure both approaches are used, there are no clear guidelines for collating results in a coherent manner (although presumably the TIPS Sourcebook will do this). For example though the final report on the fuel price PSIA in Honduras included quantitative and qualitative elements, the draft did not give equal weight to both sets of research findings (Box A2).

#### **4.4 Quality of data**

Accessing quality data for PSIA's emerged as a common difficulty. The lack of historical data and poor systems of data collection were noted in Honduras, Malawi, Nepal, Tanzania and Central Asia (Boxes A2, A5, A6, A10 and A8). In Russia, there is a deep-rooted mistrust of data, manipulated in the past to enforce unjust policies (Box A8). Further limitations were encountered in various PSIA's. In Nepal and Iraq, it is hard to collect data because of ongoing conflict and/or security threats in many areas (Boxes A6 and A4). PSIA's rely on household surveys and modelling approaches. Such data is not always available, affecting the quality of analysis presented in PSIA's and other poverty-related studies. One weakness of the research carried out in Indonesia was that it was based on 1995 household survey data, which predated the economic crisis. Therefore while interesting findings emerged, they could not be considered to be robust (Box A3). The use of small sample sizes in some studies (in Yemen and Ghana, Boxes A12 and A1) has led to doubts about the representativeness of the findings.

In many cases DFID COs are encouraging improved data and monitoring systems by funding appropriate agencies (Bureaux of Statistics, etc...). DFID and other donors are providing support to national survey units (etc.) For example, the Government of Nepal has recently established a Poverty Monitoring and Analysis System, based within the National Planning Commission with DFID support. This new system aims to improve data collection and analysis which will improve the availability of national growth and poverty statistics (Box A6).

## **4.5 Timing of studies**

The conceptualisation of PSIA by DFID as real-time policy analysis invites an evaluation of PSIA timetables, including deadlines for the delivery of PSIA results, and national policy formulation processes.

In Indonesia, the rice tariff was selected as the focal topic for a PSIA on the basis that its findings would coincide with a political debate. Its timing was therefore geared to influence policy (Box A3). In Ghana, a PSIA on fuel policy reforms was timed carefully to come after the general elections, as the topic was politically sensitive (Box A1). On the other hand in Malawi, the PSIA on ADMARC was criticised because findings were disseminated at a workshop when it was too late for discussion to change (World Bank) policy (Box A5).

## **4.6 Engagement by DFID staff**

DFID CO staff's involvement in PSIA is much greater where an individual has had previous exposure and experience. The impetus for DFID's involvement appears to be influenced by decisions and recommendations by UK-based regional teams, DFID consultants, and individual staff members in country offices, but these decisions do not appear to be guided by a strategic framework or a clear set of norms.

DFID CO staff appear to decide themselves whether or not to become involved in PSIA. There does not appear to be a systematic approach to identifying an individual within COs to lead on PSIA. In some cases it is assumed that coordination should be the responsibility of the Social Development Advisor but in other cases an Economist takes the lead. In Pakistan, responsibility for PSIA in the country team was handed over from the Social Development Advisor to the Statistics Advisor on the basis of previous experience (Box A7). High staff mobility has led to a lack of continuity and has undermined attempts to maintain pressure on governments to integrate PSIA findings into their policy-making processes. More generally, high staff mobility and changeover has been noted by DFID staff and other DFID partners as making it difficult to develop and maintain effective links.

Because DFID is trying to streamline sectoral priorities within country offices, 'spotting' relevant topics for PSIA may be constrained (for example in Nepal and Central Asia, Boxes A6 and A8). In Yemen a change in focus of the Country Office (towards budget management) means that there has been little follow-up of the PSIA (Box A12).

## **5. Civil Society Participation in PSIA**

PSIA processes and the research results that they generate have the potential to open up domestic policy processes. Where civil society is given the research results they may have an opportunity to lobby government and influence policy outcomes. However, an assessment of PSIA experience shows that this is optimistic, and to date civil society has had limited policy influence as a result of PSIA. In general, civil society organisations (CSOs) have only been included in certain stages of the PSIA process (presentation of findings, awareness raising meetings, consultation during data collection, etc) and have been rarely involved in topic identification or research activities. Nor have they used PSIA findings to influence policy. The reasons for limited civil society participation in PSIA are varied and can include civil society

being excluded from what are seen as contentious debates, a poor relationship between government and civil society and the sometimes limited capacity of CSOs.

In Ghana CSOs were actively involved in a consultation workshop to identify priority PSIA topics, and were vocal in expressing their priorities. CSO representatives were members of the PSIA Technical and Steering Committees, and were particularly involved in quality control through reviewing draft and final reports (Box A1). In Honduras and Yemen, the use of qualitative methods in PSIA research led to the involvement of civil society (Boxes A2 and A12). In Honduras, CARE, an international NGO with strong links to local civil society organisations, was commissioned to carry out participatory assessments, and in Yemen research teams canvassed civil society stakeholders for their opinions, and these were included in the final report. In Tanzania, CSOs lobbied the IMF to comply with their obligations stated in the PRGF for a PSIA on trade liberalisation. The IMF agreed to commission a PSIA but this has not yet happened (Box A10).

Some PSIAs have been produced in an inaccessible form, which has made it difficult for civil society to engage with the issues or the debates. This may be where the content is complex and highly technical (e.g. the Rwandan PSIA on public expenditure and econometric-centred PSIAs implemented by the World Bank in Central Asia and Vietnam, Boxes A9, A8 and A11), but is also a result of different perceived audiences for, and purposes of, PSIAs. An output for use by civil society to lobby government and in stimulate national debates will differ from those which are for internal consumption by World Bank economists, for example.

Civil society is not always active in policy engagement. In Nepal, for example, NGOs have a limited advocacy role apart from around trade (Box A6).

The first round of PSIAs have highlighted the need for civil society actors to have access to better evidence if they are to influence policy. In Yemen, wide participation in the consultation phase of the PSIA widened understanding of the rationale for the proposed policy change, and civil society actors were able to suggest forms of mitigation for the poor. Their views were represented in the PSIA report (Box A12). The need for CSOs to have better information was also highlighted by the Indonesia PSIA where five of the local NGOs and one of the think-tanks interviewed for the Policy Interest Matrix had opposing views of the likely impact of rice import tariff increases. This lack of unity was partly due to their lack of access to good information (Box A3).

DFID country offices are aware of the weakness of civil society's engagement in the PSIA process. However, some country offices hope to use civil society involvement in current and future PSIAs as a mechanism for opening up national policy-making to democratic scrutiny and debate. In Tanzania, the DFID country office is planning to use the local taxation PSIA as an opportunity to increase stakeholder and civil society participation and in Honduras, it was agreed in a workshop in November 2004 attended by DFID Honduras that there is great potential for civil society to engage in all parts of future PSIAs (Boxes A10 and A2). There is real potential for some of the obstacles faced by civil society in engaging in policy-making processes to be tackled in the PSIA process. To begin, it is important to recognise that the design of PSIAs – the use of good stakeholder analysis, participatory workshops with relevant groups, sensitivity to gender, class, clan etc - is essential in ensuring that real participation can take place.

## 6. The Policy Influence of PSIAs

### 6.1 PSIAs and different policy contexts

PSIAs are implemented in diverse policy-making arenas conditioned by national political and historical contexts. The type of policy change under review together with the context define the potential influence that PSIAs have on policy and decision-making processes.

This review of DFID experiences confirms the importance of political and historical circumstances in shaping how evidence is used to shape policy. Changes in personnel connected with political cycles can reduce DFID's 'institutional memory' of PSIAs and reduce the continuity of DFID's commitment to evidence-based policy-making. Also commitments made by one government may be reneged on by a future government, for good political reasons. In Iraq, for example, a PSIA commissioned with the agreement of the current interim government may or may not have an impact on decisions taken by the future government (Box A4). In Russia, a major government reshuffle has affected DFID relationships with government as this was built on successful interpersonal relationships. This is likely to reduce the influence DFID can have following a PSIA on housing reform. It has also delayed PSIA-related capacity building (Box A8). Political traditions of top-down policy-planning in Russia and a deeply-rooted suspicion of data, have also limited stakeholder and civil society involvement in debating policy options. Similarly in Vietnam, a one-party state, the space for research and dialogue around policy is still limited. DFID Vietnam hopes that, bearing in mind this context, PSIAs can be used to open up the space for dialogue and debate and to empower stakeholders in policy participation (Box A11). Interestingly, in Vietnam, where there is a clear government commitment to poverty reduction, the recent success of economic reforms and growth in reducing poverty, has eclipsed the need to accompany reforms with mitigation measures. DFID Vietnam predicts that as the impacts of economic reforms become more complex in the years to come, there will be an increased demand on the part of the government for *ex ante* social and economic policy impact assessment. In Nepal, ongoing conflict and the suspension of government has overshadowed any attempts to build evidence-based policy-making (Box A6).

### 6.2 Different uses of *ex ante* analysis

Two distinct conceptualisations and uses of *ex ante* policy analysis emerged in this review. The first and more radical approach assumes a policy vacuum on a given topic whereby a number of policy alternatives can be considered and evaluated on the basis of their respective distributional impacts. In Indonesia, for example, although different stakeholders had a preferred policy outcome, no policy decision was assumed *a priori*. Rather the PSIA was designed to consider various policy scenarios, though in practice time and capacity constraints meant only two scenarios were considered using CGE modelling (Box A3). In Russia recommendations from the housing reform PSIA were included in the World Bank's Poverty Assessment and were disseminated widely in the region, providing a good example of *ex ante* policy evaluation (Box A8). In Tanzania, PSIAs have helped to question long-held assumptions around decentralisation, including whether local taxation really *does* increase government accountability (Box A10).

The second and more common approach to PSIAs, is to apply PSIA tools to evaluate the likely impact of a policy decision that has already been agreed to raise awareness in government and amongst donors and, where necessary, suggest fine

tuning to increase benefits or reduce costs to specific social groups. A clear example of this approach is given by the PSIA on the commercialisation of ADMARC in Malawi, which identified remote rural households as requiring safeguard measures to mitigate the impact of the commercialisation policy. A response from government to the PSIA has been 'on pause' for a year due to the political cycle and the World Bank is only now seeking consultancy advice on how best to maintain the 'social function' of ADMARC (Box A5). In Ghana, the government used the results of the PSIA in negotiations with the IMF on fuel policy reforms, and although fuel prices were raised after the election, a number of mitigation measures to reduce the negative impact of the reforms on the poor were also introduced (Box A1). Also in Ghana, recommendations from the PSIA on the modernisation of agriculture influenced government and ensured that the policy's impact on risk adverse and risk diverse farmers was considered. In Vietnam, a PSIA on SOE reform looked at both the positive effects of the reforms on efficiency and at how to set up safety nets for retrenched workers. These workers were then compensated for their loss of work. It has since been found that as a result of these measures, there have been few detrimental effects from the reform and that most retrenched workers have been able to find other work and invest their compensation money sensibly. The second phase of the work on SOEs which DFID is leading has emerged out of this initial PSIA (Box A11).

An interesting and quite uncharacteristic example of PSIA-type analysis evaluated the impact of a private sector micro-finance scheme in Tajikistan on both beneficiaries and non-beneficiaries (Box A8). The study's results have increased the awareness of the scheme's managers and may have a far-reaching impact in terms of mainstreaming a pro-poor focus in projects and programmes supporting the private sector.

Many PSIA's have been linked to policy reforms tied to IFI lending to national governments. A glance through the list of PSIA's undertaken around the world (Annex 5) highlights a number of common PSIA topics, such as privatisation of agricultural boards and utilities, subsidy removal, trade and fiscal reform – all consistent with IFI agendas. The question arises as to whether the extent of international consensus behind such policy changes together with the potentially severe implications of non-compliance (including the possibility that IFI lending levels will be reduced), actually limits the scope for an objective *ex ante* evaluation of alternative policy scenarios. For example, it is unclear whether PSIA's on State Owned Enterprises (SOEs) around the world have gathered enough evidence of the 'social' or protective function of SOEs to encourage a reframing of the approach to SOE reform. Such a reframing would lead to a focus on assessing the differential impact of a range of SOE reform measures (private, public, mixed ownership and management models), rather than assessing the impact of only one approach - privatisation/commercialisation.

The only example in which IFI macro-economic orthodoxies have been clearly challenged is that of the Rwandan PSIA on public expenditure reform. And in this case the findings of the PSIA were strongly criticised by the IMF as insufficiently robust and, at least officially, failed to redirect IMF policy directives. Despite their critique of the PSIA the IMF has moderated its approach in Rwanda (Box A9) and elsewhere.

Yemen presented an interesting example of a government response to the tension between IFI structural conditions to lift fuel subsidies and political pressures from national constituencies opposing the policy. Initially the latter predominated, leading to the IMF's withdrawal of support. Subsequently, the Yemeni government requested that DFID Yemen carry out a PSIA on fuel subsidies (Box A12). The PSIA

recommendations supported the World Bank conclusions about the unsustainability of maintaining the fuel subsidies and identified groups at risk from the proposed policy reform. The government has since lifted the subsidies, but not made any official announcements on the reform for fear of national protests.

In many instances, it is still too early for policy outcomes from specific PSIA to be detected. Furthermore, the complexity of policy processes means that it is not always possible to trace a clear link between PSIA recommendations and policy outcomes<sup>8</sup>. For example in Indonesia, rice import tariffs were not increased, but it is not clear that this can be attributed to advice derived from the results of the rice tariff PSIA, to discussions with key decision-makers during the PSIA or to other non-PSIA related influences. In Nepal the removal of some fuel subsidies may have resulted from PSIA debates, but is more likely to have resulted from bilateral discussions with the World Bank (Box A6). In Honduras, a PSIA on fuel levies may well have led to a reduction in kerosene taxation. Naturally, high levels of government ownership increase the chances of a linear association between PSIA findings and policy outcomes. DFID ECAD staff noted that the highly technical nature of many World Bank PSIA in Russia and Central Asia (Box 8), and their lack of clear connection to specific government officials or processes, has meant that PSIA have had very little tangible impact in the region.

Short-term policy influence is important, but it is the role that PSIA *may* play in strengthening the use of evidence in national policy processes that some DFID country office staff particularly emphasised. Where PSIA do help to achieve such a change is difficult to assess, however. DFID Honduras staff noted that the main outcome from PSIA work to date has been that PSIA have started to build a culture around evidence-based decision-making. In Honduras, key elements of this ‘culture’ are the personal commitment of individual politicians to evidence-based policy-making, networks developing around PSIA linking politicians in various ministries and government institutions, alliances forged between academic and political institutions, availability of PSIA resources and the harmonisation of donors around PSIA (Box A2). Similarly, good ownership of the PSIA approach across government ministries has been achieved in Ghana, where there is a positive trend within government ministries to use more poverty and impact analysis in their policy processes (Box A1). The integration of PSIA into the PRS cycle and into national policy-making processes is a good indicator of the sustainability of PSIA processes.

### **6.3 Disseminating PSIA findings**

PSIA by nature increase the availability of evidence around certain issues, which in itself can have long-term benefits if findings are accessed by parliamentarians, civil society and other actors, such as the private sector. The dissemination of PSIA findings has occurred in various ways. DFID have supported workshops in Russia (housing reform PSIA, Box A8) and in Malawi (ADMARC, Box A5). Both were well attended by government bodies, civil society organisations and the donor community, although the ‘impact’ on decision-makers is hard to determine. In the case of Malawi, the dissemination workshop communicated the results of the study but did not broaden involvement in policy debates. In Yemen and Indonesia, findings were presented to the commissioning institutions (Boxes A12 and 3). In contrast, in Central Asia and Tanzania, findings from World Bank PSIA reports have been circulated informally (or not at all) (Box 8 and 2). In Honduras the availability of clear data

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<sup>8</sup> Tracing the impact of PSIA faces the same challenges of identifying the counterfactual and assessing the degree of causation as other forms of impact assessment (pers comm. Peter Poulsen)

around the minimum wage debates generated by the PSIA was able to inform public-private negotiations (Box A2).

#### **6.4 Barriers to the effective uptake of research-based evidence**

Substantial barriers to the effective uptake of research-based evidence remain. Political and power analysis (including ‘Drivers of Change Analysis’) can help to predict where research-based evidence is likely to only weakly influence policy-making. In Indonesia drivers-of-change type analysis was applied as a key part of the PSIA (Box A3). DFID Tanzania and Honduras are considering combining PSIA studies with drivers of change approaches, to capture the political dimensions of the policy-making process (Boxes A10 and A2).

In some countries PSIA has increased awareness of the distributional effects of policy change and supported increased use of evidence in national policy-making processes (DFID key informant, see Box A1). However, experience has been patchy and Russia and CASC provide examples of countries where evidence has been shown to play a lesser role in determining the direction of policy reform than the exercise of elite power (DFID key informant) (Box A8).

Nor can evidence always be used. In Iraq, the volatility of the political situation means that politicians are very reluctant to introduce policy reform with negative impacts in the short term or for a particular interest group, even where evidence shows that the current policy (for example food or fuel subsidies) has a negative aggregate effect (see Box A4). Another example comes from Yemen, where political power is highly concentrated around a leader who has held onto power for many years. His clientilistic use of resources (whereby he provides subsidies to placate sections of the population) has high opportunity costs, absorbing a considerable proportion of GDP. But evidence that this is happening may not be sufficient to change policy (despite the considerable pressure for reform from the IMF) (see Box A12).

#### **6.5 Challenges**

The challenges of feeding PSIA analysis into policy processes are not unique. They are experienced when attempting to use any other form of research-based evidence to inform policy-making. The literature suggests that success depends, in part, on:

- domestic political context and policy formation processes (including links between policy makers and other stakeholders, the strength of social movements and coalitions, elite perceptions of the poor, the effectiveness of ‘the developmental state’ as opposed to the clientilistic or neo-patrimonial state, the openness of political processes and debate and so on)
- the liveliness of issue-based domestic politics
- the credibility of the research team
- the apparent rigour of the results
- resonance of the findings with dominant country-level and international discourses
- presentation of results to policy makers in an absorbable and useful format (sometimes alongside effective use of the media and other intermediaries)
- timeliness of dissemination
- the degree to which evidence is commonly used in national policy formation
- the degree to which national policy makers have an interest in the PSIA study and its findings.

(Weiss, 1977; Sabatier & Jenkins-Smith 1999; Sutton, 1999; Gladwell, 2000; Bird et al, 2004; RAPID, 2004, Stone & Maxwell 2004)

These issues point to the importance of combining robust methodologies and a 'quality product' with a 'quality process'. The bottom line appears to be: if government ownership is low and policy analysis and dissemination are not integral to the study's design then, no matter how good the technical analysis, policy influence is likely to be more limited.

## 7. DFID's Plans for Future Involvement in PSIA's

DFID CO staff interviewed for this study were largely positive about PSIA's, but there were varying levels of commitment to being actively involved in PSIA processes in the future. In most cases, enthusiasm for future involvement in PSIA's was proportional to an individual's previous level of involvement.

Corporately there has been limited evidence of a strategic approach to PSIA's – corporate messages relating to PSIA's have been few and far between. Nor is there much evidence of DFID using PSIA's strategically at the country level. However, DFID has now developed a draft PSIA policy (see Annex 6) which may create a more coherent approach. Experience at the country level has differed and staff in DFID Malawi, DFID Nepal and DFID ECAD (see Boxes A5, A6 and A8) stated that their future involvement in PSIA's depends on the strategic direction of their country offices, which are trying to identify and focus on key sectors in each country. In Yemen, DFID's decision to focus its resources on public financial management has reduced the ability of CO staff to follow up on recommendations from a PSIA on fuel subsidies (Box A12).

The somewhat ad hoc approach to PSIA's to date has meant that the emphasis given to PSIA's by DFID country offices has not been even or systematic. Some offices have devoted a much greater proportion of their time and resources to supporting PSIA processes than others. There are also widely differing expectations of the future. Where country offices have not provided a strong lead on PSIA's, the involvement of individual advisors will tend to depend on their personal enthusiasm for and commitment to PSIA's, and the emergence of 'suitable topics'. How and when such 'suitable topics' emerge and the role of recipient government in defining them is not always clear. Following the development and dissemination of a PSIA policy, guidance on conditionality will now include a section on PSIA's and the absence of coherent strategy may now change.

It's interesting to compare changing institutional incentives in the World Bank for PSIA. Up to now central PREM teams have been more knowledgeable about PSIA's than country teams and have undertaken the bulk of funding over the last two years (see Box A10). Less central funding (about US\$1m compared to nearly US\$2m last year) will be available for the next financial year, as funding is being gradually decentralised from PREM to country teams. This should, in theory, increase the number of PSIA's conducted and create a stronger incentive to work closely with recipient governments.<sup>9</sup>

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<sup>9</sup> But trends will be difficult to track as PSIA's will not have a unique World Bank accounting code (pers comm. Peter Poulsen)

Differing national policy environments and priorities are also clearly important, and the political context shapes each DFID office's ability to predict its future involvement in PSIA. In Malawi, for instance, the PRS process is on hold and what are perceived to be 'donor-driven processes' are unlikely to be grasped by national policy-makers in the near future (Box A5). In Nepal, conflict has made PSIA less of a priority over the short to medium term, although DFID Nepal envisages that once the conflict is resolved the annual action plan linked to the PRS will identify policy reforms which would benefit from PSIA (Box A6). In Ghana, where DFID Ghana is supporting long-term institutional change, PSIA are now substantially embedded in national policy-making, and it is anticipated that further PSIA topics will emerge out of the forthcoming revision of the Ghanaian *Growth and Poverty Reduction Strategy* (Box A1). In Honduras, PSIA and the Poverty Monitoring System Master Plan (which collects best practice and expertise on PSIA in Honduras) have been included in the 2005 multi-donor fund action plan established by DFID Honduras (Box A2). DFID Honduras hopes that this action plan will preserve the momentum that has been built around PSIA, despite the imminent closure of the DFID country office.

DFID country office staff and DFID PSIA consultants still have a role in identifying topics for PSIA. So, for example, despite government reluctance the removal of food subsidies and the privatisation of state-owned enterprises are likely to be high on donor policy agendas in Iraq (Box A4). Both issues are politically sensitive and politicians are so concerned that increased instability may result from announcing policies with negative impacts on strategic groups that careful *ex ante* impact assessments will be needed before donors can hope for reforms. Social protection issues are crucial issues in Russia and Central Asia, and a PSIA on social protection reforms in Tajikistan has been proposed (Box A8).

An important future role identified by several DFID advisors, is for DFID to continue their engagement with the IMF and World Bank around PSIA-related issues. The benefits are identified in terms of increased openness to social analysis and poverty impact assessment by the IFIs, and conversely more familiarity with World Bank methodologies in DFID; an increase in transparency around the identification of PSIA topics and an increased focus by all donors on national ownership. Co-financing of PSIA-related programmes was identified as a crucial way to gain leverage around these issues, although clear evidence of the efficacy of such co-financing is yet to be systematically compiled by DFID.

Where PSIA is not a central focus for DFID offices, other forms of support continue to be relevant including capacity building for research and data collection by supporting relevant institutions. Much of this support to date has focused on improving ex post monitoring of poverty outcomes. How effective it has been, or might be in the future, in building capacity for ex ante PSIA-type work is not yet fully clear.

## **8. Conclusions and Recommendations**

This review has identified a growing interest in PSIA among DFID country offices and PSIA consultants. In most cases, experience of PSIA is still in the early stages and levels of familiarity with PSIA processes are not uniform within the DFID regions. PSIA have not yet been used systematically across DFID country offices and while some DFID offices have commissioned or co-funded several PSIA, others have had little involvement.

Two major conclusions have been highlighted in this review, as well as a number of recommendations regarding DFID country office involvement in PSIA processes, lessons for other donors and areas for DFID PAM engagement.

## **8.1 Main conclusions**

Poverty and Social Impact Analysis has value in its own right. However, their key goal is, arguably, to support evidence-based and poverty-focused national processes of decision-making. The current emphasis on PSIA resources and methodologies should not detract from PSIA's dominant objective to act as a tool to generate momentum around evidence-based policy-making. DFID is the main donor with a clear mandate to fund and support PSIA, evidence-driven policy and poverty focused policies. While other donors may commission and fund larger numbers of PSIA, they are not likely to have the same level of commitment to embedding PSIA within national processes. A key goal for DFID must therefore be to work towards supporting the development of national systems which use PSIA as an integral part of their national planning and policy cycle.

Secondly, the political context is crucially important in determining the extent to which PSIA-derived evidence is able to influence policy. While robust evidence can be persuasive, it is still only part of the picture and power networks and elite attitudes mediate the impact of evidence on policy. Understanding this political context is crucial and, where decision-making is centralised and tends to have limited use of evidence, opening up opportunities for parliamentarians, civil society and the general public to be engaged in policy debates can be beneficial. However, for this to be effective, DFID must succeed in influencing others - donors, including the IFIs, and national governments. In such a context, DFID will be unable to exert influence through the scale of its programmes and must, instead, seek to influence through collaboration and discussion. It is already claiming some success in developing the PSIA agenda through co-financing (although limited evaluation evidence is available to support this claim). Frequent DFID staff turnover can undermine DFID's leadership role in this area, as maintaining a strong presence in PSIA-related processes with both national governments and the World Bank depends on the sustained involvement of knowledgeable individuals.

## **8.2 Recommendations for country offices in commissioning and managing PSIA**

A crucial recommendation echoed by several country offices with a more developed level of experience of PSIA is to focus on the process of PSIA implementation, rather than simply on the outcome (i.e. a PSIA report). All PSIA should be viewed as 'pilots', setting an example for national governments and other donors. As was noted in the case of Pakistan, in countries where evidence-based policy-making is limited, a DFID commissioned PSIA should provide a national government with an easily replicable example of a real-time *ex ante* policy study (Box A7).

The case studies examined in this review do not resolve the question as to whether it is preferable to identify one institutional home within a national government (as in the case of UNAT in Honduras) for PSIA processes or whether this has the potential to limit the chances of sectoral ministries getting involved. This may well be dictated by specific country contexts and DFID capacity at country level to build networks with multiple government agencies. Where possible, national research resources should be used in implementing PSIA. Where it is necessary to draw on international consultants, all opportunities for local capacity building should be taken advantage of.

DFID should seek, where possible, to use PSiAs to widen levels of stakeholder participation around PSiAs, to include civil society and representatives of the poor. This is relevant from the initial stage of issue identification, in order to ensure that issues of relevance to the poor are evaluated using PSiAs and that such studies are not limited to issues of relevance to IFI agendas. A need has been identified to improve the evidence base for civil society action and improving civil society participation in PSIA processes may indirectly assist in achieving this aim. A number of PSiAs have highlighted the need for a greater understanding of the rationale for the proposed policy change amongst the general public (Iraq, Yemen, Boxes A4 and A12) and/or civil society (Indonesia, Yemen, Boxes A3 and A12). This suggests that wide dissemination of PSIA findings, through evidence-based education campaigns, may support the opening up of the policy-making process.

Country level workshops around PSiAs (issue identification and prioritisation, dissemination of findings etc.) are a good opportunity for building consensus around the ethos of PSiAs and strengthening policy and poverty-related networks, within governments, the donor community and civil society.

In various case studies, DFID's involvement in PSiAs has benefited from concurrent investment of resources into building national capacity for research and data-gathering. These longer term investments provide vital support for PSIA work.

### **8.3 Key lessons from DFID's PSIA experience for influencing other donors**

Regarding relationships with other donors, a number of observations and suggestions emerge from the diverse experiences reflected in the interviews, in particular with the World Bank, the other major player in PSiAs.

The areas in which DFID can bring major influence are:

- balancing qualitative and quantitative research (mainly through an emphasis on qualitative dimensions)
- ensuring a pro-poor focus (applied to issue selection and stakeholder participation in the PSIA process)
- internalising PSIA processes within national governments and encouraging WB/IMF to move away from internal PSiAs to PSiAs as a 'public good' (OXFAM report 'From Donorship to Ownership')

DFID appears to have most chances of success in influencing the World Bank where relations are good, rather than adversarial, both on an institutional level and on a personal level between individual members of staff. DFID teams have found this provides a good platform for challenging unilateral and technocratic approaches to PSiAs by the World Bank. Willingness to co-finance World Bank projects (even on a small scale) has increased DFID's negotiation capacity. A pro-active approach by DFID staff in finding out about current PSIA work within the World Bank (by requesting progress reports and attending World Bank organised workshops) has also increased DFID's ability to provide input and influence PSIA processes.

In countries where PSIA engagement is at an advanced stage (e.g. Honduras and Ghana, Boxes A2 and A1), DFID teams have recommended the development of

cross-regional networks to get consultants to share PSIA-related experiences across a region.

#### **8.4 Recommendations for DFID PAM's engagement in PSIAs**

The existing support that the PAM team provides to country offices and PSIA teams has received positive feedback. It is therefore recommended that such support be continued and that DFID PAM strengthens its role through:

- maintaining up-to-date resources on PSIAs
- development of a database of PSIA consultants recommended by PAM and specifying regional, substantive and methodological expertise.
- contributing to the standardisation of PSIA processes around the world by sharing examples of best practice
- providing advice in applying TIPS and User Guide procedures to specific country contexts

A number of key areas in the process of commissioning and managing PSIAs emerged, where it would be useful for DFID to draft revised procedures for the commissioning and managing of PSIAs:

- One of the major conclusions of the study is the importance of political context in shaping the space for evidence-based policy-making. There is perhaps scope for DFID PAM to develop and standardise methodologies for mainstreaming power analysis (e.g. through a Drivers of Change *plus* type approach) into PSIAs.
- A current perceived gap in guidance is around the sequencing and integration of qualitative and quantitative methods in PSIAs, although we recognise that the final draft of the TIPS Sourcebook may fill this gap.
- Some commentators have suggested that PAM need to emphasise the role that PSIA can play in the *ex post* evaluation of policy, and integration with national monitoring and evaluation systems, in addition to its known strengths *ex ante* assessment. This need has been incorporated in the Good Principle Guidance for PSIA recently completed by PAM.
- Guidance around how best to use PSIA results to influence country-level and donor policy has been given on a number of occasions on an *ad hoc* basis. This could be collected and disseminated more widely.

Other recommendations include:

- Current and planned future involvement in PSIAs is much higher among staff with previous PSIA experience. This suggests that it would be useful to identify a way of encouraging greater exposure to/ experience of PSIAs in DFID. The TIPS Sourcebook will clearly provide useful guidance, but providing individual country teams with hands-on experience is invaluable. A possible solution would be for DFID to initiate a process of professional mentoring and cross-country exchange visits focused on PSIAs.
- There is evidence to suggest that capacity building to help ease interdisciplinary work would be helpful. For example social analysis training for non-social analysts / compulsory professional training on PSIAs and interdisciplinary work methods.
- The DFID PAM team can support DFID CO relationships at country level with the World Bank by lobbying for total institutionalisation of PSIAs within IFIs at Washington level. Furthermore, the dissemination of information regarding

current World Bank operational policies around PSIAs can provide country offices with useful leverage with which to lobby national offices.<sup>10</sup>

- Other teams within DFID Policy Division (e.g. Sustainable Development Team) have shown a growing interest in PSIAs of and a desire to develop links with Sustainable Environmental Assessment. The Water, Energy and Minerals sections are interested in learning more about PSIA to inform policies e.g. improving water supply. This is another route by which PAM can help PSIA to become wider understood in DFID.

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<sup>10</sup> The World Bank's operational policy which now states that World Bank programme documents should highlight where national policies, supported by Bank lending, are likely to have significant distributional consequences. They should also identify how borrower countries plan to deal with them. Where a PSIA is considered necessary, it should either be completed by the Bank or other partners before funding is agreed by the Bank's Board, or an action plan should be presented for its completion (World Bank, 2004).

## Box 7: Increasing the influence of PSIA on policy

What you need to know	What you need to do	How to do it
<p><b>Political Context:</b></p> <ul style="list-style-type: none"> <li>▪ Who are you trying to influence – government or the IFIs?</li> <li>▪ Who are the policy makers and different interest groups?</li> <li>▪ Is there demand for a PSIA in this area (national/ IFI)?</li> <li>▪ What are the sources / strengths of resistance to reform/ pro-poor policy change?</li> <li>▪ What is the policy-making process?</li> <li>▪ What are the opportunities and timing for input into formal processes?</li> </ul> <p><b>Evidence:</b></p> <ul style="list-style-type: none"> <li>▪ What is the current theory?</li> <li>▪ What are the prevailing narratives?</li> <li>▪ How divergent is the new evidence?</li> <li>▪ What sort of evidence will convince policymakers?</li> </ul> <p><b>Links:</b></p> <ul style="list-style-type: none"> <li>▪ Who are the key stakeholders in the policy discourse?</li> <li>▪ What links and networks exist between them?</li> <li>▪ Who are the intermediaries and what influence do they have?</li> <li>▪ Whose side are they on?</li> </ul> <p><b>External Influences:</b></p> <ul style="list-style-type: none"> <li>▪ Who are main international actors in the policy process?</li> <li>▪ What influence do they have?</li> <li>▪ What are their aid/ trade/ investment priorities?</li> <li>▪ What are their research priorities and mechanisms?</li> </ul>	<ul style="list-style-type: none"> <li>▪ Get to know the policymakers/ interest groups, their agendas and their constraints.</li> <li>▪ Identify potential supporters and opponents.</li> <li>▪ Keep an eye on the horizon and prepare for opportunities in regular policy processes.</li> <li>▪ Look out for – and react to – unexpected policy windows.</li> </ul> <ul style="list-style-type: none"> <li>▪ Establish credibility over the long term.</li> <li>▪ Provide practical solutions to problems.</li> <li>▪ Establish legitimacy.</li> <li>▪ Build a convincing case and present clear policy options.</li> <li>▪ Package new ideas in familiar theory or narratives.</li> <li>▪ Communicate effectively.</li> </ul> <ul style="list-style-type: none"> <li>▪ Get to know the other stakeholders.</li> <li>▪ Establish a presence in existing networks.</li> <li>▪ Build coalitions with like-minded stakeholders.</li> <li>▪ Build new policy networks.</li> </ul> <ul style="list-style-type: none"> <li>▪ Get to know other donors, their priorities and constraints.</li> <li>▪ Identify potential supporters, key individuals and networks.</li> <li>▪ Establish credibility.</li> <li>▪ Keep an eye on international donor discourses and look out for changes and opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Work with policy makers.</li> <li>▪ Link PSIA topic with current national priorities/ concerns.</li> <li>▪ Line up research programmes with high-profile policy events.</li> <li>▪ Reserve resources to be able to move quickly to respond to policy windows.</li> <li>▪ Allow sufficient time &amp; resources.</li> </ul> <ul style="list-style-type: none"> <li>▪ Support programmes of high-quality work.</li> <li>▪ Provide evidence of the impact of PSIA processes &amp; results on pro-poor policy change in other sectors &amp; countries.</li> <li>▪ Involve a range of parliamentarians, civil servants, government &amp; other stakeholders to deepen national ownership &amp; open up policy processes, legitimacy &amp; implementation.</li> <li>▪ Clear strategy and resources for policy engagement.</li> </ul> <ul style="list-style-type: none"> <li>▪ Support partnerships between researchers, policy makers and communities.</li> <li>▪ Identify key networkers and salespeople.</li> <li>▪ Use informal contacts.</li> </ul> <ul style="list-style-type: none"> <li>▪ Deepen donor coordination.</li> <li>▪ Seek opportunities to influence and collaborate.</li> <li>▪ Identify joint priorities.</li> <li>▪ Identify what other donors do well – what can you learn? How can you contribute?</li> <li>▪ Contact (regularly) key individuals.</li> <li>▪ Institutionalise links and joint strategies</li> </ul>

Adapted from Court et al, 2005.

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# Annex 1: Terms of Reference

## Background

Poverty and Social Impact Analysis (PSIA) is becoming more widely used and questions are being raised about its effectiveness. Several initiatives have been undertaken or are planned to help provide the required information on impact:

1. Reviews have been undertaken of the impact of some of the pilot PSIA's funded by DFID in 2002. These have provided useful insight into the impact and experience from these pilots.
2. The World Bank has started to prepare Briefs on lessons learnt from PSIA methodology, and are considering preparing briefs on the common conclusions yielded by similar PSIA's. The Bank website summarizes some of the PSIA's undertaken; however, this is not up to date with the many PSIA's they have funded over the last year. Discussions are underway between DFID and the Bank on how this may be updated more regularly.
3. The World Bank and IMF have agreed to provide a detailed report to their boards on the progress of PSIA work they have been engaged with, in the first quarter of 2005.
4. As part of the TIPS Sourcebook, summaries are being prepared on a range of PSIA's, including methods used, impact on policies and key lessons learnt – this is focussing mostly on the pilots and recent Bank experience.
5. DFID is funding work by Eurodad to study the impact of PSIA work, with a particular focus on the involvement of civil society. It also includes a few in depth country studies.
6. The Bank has committed to provide a review on experience with PSIA for inclusion in the 2005 PRS Review. They have indicated interest on drawing on other sources of PSIA review.

DFID country offices are becoming more involved with PSIA work. This is either through the direct commissioning and supporting of PSIA's in consultation with local governments, or indirectly being one of the stakeholders in studies undertaken by other donors, in particular the World Bank. A more detailed stock take of this experience, in early 2005, would help to feed into World Bank reviews on PSIA experience, and help provide an alternative perspective on experience.

## Outline of Proposal and Terms of Reference

**Objective:** increase the understanding of the contribution made by PSIA on improving the appreciation of policy impact, and the formulation of more evidence-based, participatory and pro-poor policies.

**Outputs:** Production of a short report that aims to:

- Update the PAM team list of PSIA's funded by DFID, and provides a short summary of experience gained and impact on policy where the PSIA has been completed. (Suggested format similar to that being used for the TIPS Sourcebook)
- Review DFID staff's direct and indirect experience with PSIA, to guide procedures of PSIA within DFID, and shed light on the work by others, particularly the IMF and World Bank.
- Based on the draft DFID Policy for PSIA, identify concerns and issues raised by country offices, areas for further advice, and issues related to DFID funding that might be considered for PSIA.
- Provide a short list of recommendations to improve PSIA methods and processes for DFID, the Bank, IMF, and others to consider based on the information gathered.

**Methodology:** this will be a desk study carried out in the UK by a consultancy with experience of PSIA methods. The consultant(s) will undertake interviews with DFID staff to gather experience of PSIA. DFID Staff based in Palace Street will be interviewed face to face, and staff in country by Video Conference or phone. DFID will arrange the availability of Video Conferencing/phone equipment.

The consultant will be expected to liaise closely with the PAM team. Desk space (with docking station for a lap top) will be provided whilst the consultant is working in Palace St. The team will also provide support organising meetings and VC/phone consultations using DFID facilities.

**Experience required:** the consultant needs to be familiar with PSIA methodologies. Experience in undertaking PSIA work would be useful; however, similar in country experience is suitable. Self motivation and the ability to interview people effectively both in person and on video conference link, is essential; as is the ability to bring together a collection of information and identify key lessons and patterns of experience, in plain English.

## Key Activities:

Prior to the start of the consultancy, the PAM team will contact country desks seeking those with PSIA experience and willingness to participate. The Consultant will be expected to undertake the following:

1. In consultation with the PAM team, finalize the detailed work programme and identify those country teams to be included and the contacts to interview. Given they will be based in Palace St for much of their work, regular informal interaction with the contact persons in PAM team will be possible (by 25/2/05)
2. Read reviews of the PSIA pilots, and existing summaries in the draft TIPS to gain understanding of the work being done by others. (Week Beginning 21/2/05)
3. Undertake the interviews (sometimes this may be with some PAM staff), and follow up with the interviewees on any outstanding issues, including clearing with them the summary for inclusion in the report. (Week Beginning 1/3/05)
4. Prepare a draft report submitted to PAM team by 15/3/05. After a joint review with the PAM Team, the consultant will have the remaining time to finalise the report.
5. The Final Report should be submitted to DFID by 24 March 2005.

#### DFID Contacts

Peter Poulsen will be the key contact person responsible for strategic management of the consultancy: content of questionnaire, review of report etc. Emma Bevis, with the assistance of Darren Bush, will provide organization support: communication with country offices, organize meetings and equipment etc.

Start Date: 21/2/05

End Date: 24/3/05

## Annex 2: Key Informant Interviews Checklist

### GENERAL

1. Can you give a brief description of the PSIA that have taken place in country xxxx? And to what extent was DFID involved?
2. From your experience, what stands out from the DFID CO's overall experience of PSIA's? [Key successes and challenges overall, space for details later]
3. To what extent have you been involved with PSIA work, in your current position, or other positions?
4. Are you familiar with (have you read) the PSIA User's Guide (on the World Bank website), and the TIPS<sup>11</sup> Sourcebook being developed by DFID in consultation with the Bank. Have you participated in any PSIA training/ conferences/ workshops etc? What were they?

### PROCESS

5. What, if any, process has been established within government or alternative organization such as a research institute to handle PSIA's. Has DFID had any involvement? Or have all the PSIA's so far been ad hoc?
6. How were topics or key research questions for PSIA's in xxxx selected?
7. What have been the challenges in terms of
  - the identification of key topics or research questions;
  - the commissioning of quality research teams;
  - the collection, collation and
  - the analysis of data and the presentation of quality findings?
8. Who funded the work and who chose the consultants?
9. How participatory was the PSIA? Do you feel that PSIA's have contributed to an increase in civil society involvement in national policy-making? If so, in what way?
10. What has been your experience of working with other donors on PSIA's?
11. Has there been any tension between encouraging country ownership of problem identification and analysis (including policy analysis), which includes a participatory process versus responding to IFI requirements?
12. Where WB or IMF lead the PSIA were you consulted?

### OUTCOMES

13. What have been the main tangible and intangible outcomes of the PSIA's undertaken in xxxx?
14. What have been the challenges in using PSIA-derived findings in supporting greater use of evidence in national-level decision-making?
  - in relation to the country government
  - in relation to other donors, in particular the IMF and WB – particularly interested in any examples where you have seen the PSIA process/results influence/change their initial policy position
15. Have you found PSIA's to be the most useful approach to poverty and policy analysis or are there other methods which might be just as useful?

### METHODOLOGY

16. What methods, disciplines were used for the PSIA? Where a multi-disciplinary approach was used, were there any challenges, advantages?
17. What was your experience of planning and implementing appropriate methodologies?
18. Did you introduce any particular innovations?

### FUTURE INVOLVEMENT:

19. How do you plan to engage in future PSIA's (do you think they will be relevant/workable in your country programme)?
20. Do you think that they will improve policy-making?
21. Will they work in the current donor environment?
22. How can DFID support the further development of a more evidence-based and inclusive policy process in xxxx (which PSIA aims to do)?
23. Would you like more support on PSIA from Policy Division? If so in what format: short 'how to' guidance notes, comments on TORs/methodology? what else?
24. Would you be able/willing over the next week to complete a short form for any PSIA's which were funded/commissioned by DFID, or with which you had sufficient involvement:
  - country and scope of PSIA
  - context
  - study methods
  - key findings
  - process of topic choice
  - policy impact
  - process lessons

### CONCLUSION

25. Is there anyone else in your office, or elsewhere who you believe could provide useful insight into DFID's involvement with PSIA.

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<sup>11</sup> Tools for Institutional, Political and Social methods for PSIA

## Annex 3: Interview Summaries by Country

### Box A1: Ghana

The process of rolling out PSIA is moving along well in Ghana and DFID Ghana feels a lot has been learned from the experiences to date. The impetus for PSIA arose from the development of the M&E framework for the GPRS (Ghana Poverty Reduction Strategy), where consultation across government revealed that the perceived link between policy and poverty reduction was unclear in a number of policy areas.

Five PSIA have been undertaken on: utility pricing and subsidies (funded by the World Bank); decentralisation (funded by GTZ); fuel pricing and the poor (funded by the World Bank); tackling vulnerability and exclusion; and the modernisation of agriculture (both funded by DFID).

The Government of Ghana has fully adopted the PSIA approach and DFID Ghana has been actively supporting country ownership of these studies. The high level of country ownership has enabled this first round of PSIA in Ghana to have a significant impact on policy. It has also highlighted the way in which government involvement in prioritising topics for PSIA studies and government acceptance of the PSIA results increase the use of resulting evidence in policy-making.

#### Process

**Country ownership:** There is good ownership of the PSIA approach across government ministries and, in general, there is a strong commitment to using PSIA to better understand the links between policy reforms and their likely impact on poor people. The government has taken the lead on PSIA and is taking forward the recommendations from the first studies. The President has taken an interest in the approach, particularly in connection with the study on fuel prices.

DFID Ghana is keen to undertake further PSIA in areas prioritised by the Government of Ghana, and to design the studies so that they build on the government's M&E structures. However, there have been cases of PSIA which have been seen as donor driven, reducing interest in the findings by the relevant government ministry. For example, the World Bank's study on utility pricing and subsidies was carried out by a consultant, commissioned by the Bank, and a team of staff from Washington. Institutional constraints on procurement within the Bank may have resulted in the PSIA being approached in this way, however, the result has been that while the study is quoted in Bank documents, there has been no move by the government to implement the findings. Similarly, the study on decentralisation funded by GTZ was not linked to on-going work within the government. Again the impact of the study was severely diminished by the lack of government ownership.

**Institutional capacity:** There is a positive trend within government ministries to use more poverty and impact analysis in their policy processes. While most of the studies were conducted by third parties (mainly external consultants), the government was involved in drawing up the terms of reference and commissioning the studies (along with development partners), giving them real influence in the scope of the studies. DFID Ghana provided support to the government in developing Torso and in procurement. DFID Ghana feels that although capacity has been built in these areas, gaps still remain. There are additional gaps in government capacity in the *ex ante* costing of policy choices. DFID Ghana and the ILO are attempting to bring in technical assistance in this area.

Some PSIA studies helped the government to deepen their analysis of a particular area. A good example is vulnerability, which was weakly addressed in the GPRS and in existing government policies and interventions. The PSIA on vulnerability has generated an improved understanding of the key issues, providing a good basis for future policy innovation.

The PSIA on decentralisation, funded by GTZ, was negatively affected by the weak capacity of the lead consultant. This raises the issue of what happens when a consultant produces a poor report. Who decides when studies' findings should be ignored?

**DFID capacity:** DFID Ghana was involved with all the first round PSIA in Ghana and particularly those funded by DFID. DFID Ghana gave general guidance to the government on the PSIA approach, including policy briefings, strengthening capacity in government ministries, dissemination of the studies and discussions with government on how to feed the study's recommendations into planning and GPRS processes. They also gave technical support on the terms of reference bidding process. DFID Ghana advisors were able to substantively review the inception and final studies.

**Awareness of User's Guide and TIPS:** DFID Ghana is fully aware of the User's Guide and TIPS Sourcebook and contributed to the Sourcebook. While DFID Ghana sees the importance of the User's Guide and Sourcebook as a way of encouraging policy makers to use various techniques to analyse policy, a key DFID advisor feels that for PSIA to be most effective they need to be responsive to the country context and to take advantage of opportunities that arise at the country level.

**Issue identification:** A list of topics produced as part of the GPRS M&E plan were discussed at a consultation workshop with government officials and other key stakeholders. All the topics were in the GPRS but there were gaps in understanding about the likely impact of certain policy changes. The long list of possible PSIA topics was reduced to 5 topics through discussions between the government and the donors involved in multi-donor budget support (MDBS). These discussions required careful facilitation to maintain government's central involvement in topic identification. There was a clear need to prioritise undertaking a PSIA on fuel prices and subsidies because of pressure for policy change in this area and the highly political nature of this issue, but the inclusion of some other issues was less clear cut. The World Bank attempted to get the government to re-prioritise the topics but the

government was already sufficiently in control of the process to refuse. Through involvement in this process the government now developed capacity for issue identification for future studies.

**Participation:** Civil society organisations were involved in the consultation workshop and were vocal about the issues that they thought should be studied. Members of civil society organisations were included in the steering committees for the PSIA, particularly looking at quality control issues. Civil society experts were also consulted to review drafts and final reports. Using high quality research methodologies to engage with civil society and local service users is helpful, as it ensures that the PSIA does not get distorted (e.g. DFID Ghana stated that this could be a problem where CSOs were pursuing their own agenda).

**Donor relationships:** DFID Ghana faced an initial challenge in getting World Bank and IMF on board. There wasn't a strong lead within the Bank on PSIA except for a general understanding that they should be internal academic research exercises taking around 12 months and conducted by international experts. This differed from DFID's approach which saw PSIA as short, sharp government owned policy analysis. The World Bank's insistence on retaining control over the selection of consultants and the contracting process led to disputes. The government criticised the process as being donor-led, nearly derailing the PSIA process. DFID Ghana had to step in to persuade the government to accept that while other the PSIA were owned by the relevant ministries, the World Bank study on utility pricing was run by them.

#### **Methodology**

Each PSIA had two oversight committees: the technical committee and the steering committee. The technical committee members were experts and technocrats from relevant stakeholder institutions: government departments, universities, donors, CSOs and were responsible for reviewing all stages of the process. The steering committee members were ministers and heads of the departments and CSOs. Their role was to give policy direction and ensure that results influenced policy. The government ultimately decided who would sit on these committees (but with recommendations from donors).

The livelihoods analysis used in the modernisation of agriculture PSIA worked well and is now being used by research teams in the main university. The team undertaking the PSIA on vulnerability chose to use the World Bank's Social Risk Analysis framework. The government plans to implement findings from the PSIA and is discussing whether this would be supported by developing a vulnerability framework more suited to Ghana.

Time constraints placed on many of the PSIA led to limited opportunities for primary data collection. The use of small sample sizes in some studies has led to doubts about the representativeness of the findings. There has also been a tendency to put resources into primary data collection at the expense of focusing on the key questions. Despite these limitations, the first round of PSIA achieved their aim which was to be quick and opportunistic studies to feed into discussions around budget support and the revision of the GPRS.

#### **Outcomes**

The most important outcome from the whole PSIA process in Ghana is that it has increased government acceptance of the need for evidence in policy-making. PSIA have had a very high profile within Ghana and have even attracted the attention of the President, particularly the politically sensitive PSIA on fuel pricing. The study was timed carefully to come after the general elections. The President asked the IMF to review the study and used it in negotiations with the IMF on fuel policy reforms. Although the government did raise fuel prices after the election, it also introduced a number of mitigation measures to reduce the negative impact of the reforms on the poor.

The PSIA on the modernisation of agriculture was a catalyst for changes in the way that the ministry addressed modernisation, particularly in terms of poverty and pro-poor growth. It challenged the government's ideas on agricultural modernisation, particularly for risk adverse/risk diverse farmers. PSIA recommendations have influenced the Ministry of Food and Agriculture's policy and are being used by the Ministry in discussions around the revision of the GPRS. Donors providing budget support are tracking the ministry's progress in implementing the recommendations.

The findings from the PSIA on vulnerability are being implemented by government through a set of as cross-cutting measures. The government is now producing a social protection strategy with support from DFID Ghana. The new strategy will feed into the GPRS revision process. The activities being taken forward by the government to implement the findings from the PSIA, including the social protection strategy, are included in Multi-Donor Budget Support (MDBS) and the World Bank's Poverty Reduction Support Credit (PRSC) performance assessment frameworks.

#### **Future Involvement / Challenges**

DFID Ghana will continue to support the GPRS M&E system and the use of Annual Progress Reports (APRs) to monitor progress. DFID Ghana is lobbying other donors to use the government's monitoring framework for their own reporting needs and the APR as the reporting tool for GBS. DFID Ghana is supporting long-term institutional change within the government which includes: strengthening the links between budget spending and outcomes; harmonisation of policies and government agencies. Within this, DFID Ghana will continue to support PSIA.

PSIA are most successful when the government and donors grasp opportunities as they arise. It is therefore important not to push for a set number of PSIA in any one year but to take advantage of entry points in the policy and budget negotiations (GPRS revision, MDG Needs Assessments etc). A challenge for donors will be to remain flexible in order for them to be able to support a changing agenda.

DFID Ghana recommends the development of a database of country-specific PSIA-related expertise to enable donors to fund call-down contracts with these consultants to provide governments with (on demand) support. This would need to be backed up by global technical expertise and money. The World Bank has suggested cross-regional

networks to get consultants to share PSIA-related experiences across a region. DFID Ghana would regard this as a useful innovation and would be keen to support such networks when established.

#### **Box A2: Honduras**

Following the initial DFID-supported pilot PSIA study on electricity reforms in Honduras in 2002, DFID Honduras had substantial involvement in PSIA issue identification, funding and capacity-building. As part of their exit strategy (DFID has now closed its office in Honduras, due to the country's middle income status), DFID staff in Honduras accomplished a high level of institutionalisation of PSIA processes in the hope of ensuring the sustainability of the PSIA process. In dialogue with government and donors, an issue identification process facilitated by DFID Honduras, led to PSIA on minimum wage reform, fuel price reform and on joining the Central American Free Trade Agreement (CAFTA).

#### **Process**

**Country ownership:** PSIA are now an endogenous process, with a very high level of government ownership. Networks have developed around PSIA within and between government bodies, including the Presidential Technical Support Unit (UNAT), the Central Bank, and the Ministry of Labour. This is a remarkable turnaround, considering the criticism attracted by the initial DFID-supported pilot on this front (conclusions drawn were that there was insufficient government buy-in and that the quantitative analysis remained very technocratic). The main organ responsible for PSIA identification and coordination is UNAT, the government PRS monitoring unit, in partnership with the Ministry of Finance and the Ministry of Internal Affairs. A forthcoming PSIA on the Central American Free Trade Agreement (CAFTA) will be funded by the Government of Honduras.

The politicisation of the civil service (replaced every whenever the party in control of government changes) and the lack of intra-governmental connectivity may challenge attempts to maintain the sustainability of the PSIA process.

**Institutional capacity:** Building institutional capacity was DFID Honduras' main focus. DFID Honduras worked to increase coordination capacity among ministers, to build technical capacity and to support the National Institute of Statistics. There is still a strong lack of capacity at municipal level with some illiterate mayors. On the whole the universities are also very weak, with hardly any indigenous research.

DFID Honduras worked closely with UNAT throughout these PSIA processes and this is a very positive partnership. UNAT seems to be very committed to PSIA and to ensuring that capacity building is central to each study. More capacity building support has been requested by UNAT themselves on social, political and institutional approaches to analysis. Currently they feel that there is not sufficient capacity within Honduras to work on the PSIA with purely national consultants. For instance, DFID Honduras supported the development of a Poverty Monitoring System Master Plan (PMS MP) with help from international experts, in order to collate and preserve current knowledge and expertise. The PMS MP has a chapter dedicated to PSIA, summarising best practice in Honduras. PSIA concepts and lessons were presented at a widely attended presentation in March 2004, at which all actors involved in the PRS process were represented.

A Mexican consultancy firm, CAPEM, under the management of UNAT were hired to provide a quantitative economic analysis in the PSIA on fuel price increases. Discussions were held between DFID Honduras and DFID PAM team in March 2004 to discuss how to include qualitative methods in PSIA field work. At the end of July, after reviewing different approaches and NGO partners, a set of semi-structured interviews were undertaken by the NGO CARE International, whose officers received training from and worked collaboratively with UNAT. The CAPEM consultants, spent two days with government technicians, sharing the methodology for the study and the manual they had developed, as part of the TORs supported by DFID.

A study on labour exclusion has been carried out by the Latin American Faculty of Social Sciences (FLACSO) with a clear social analysis perspective. It is hoped that the closure of DFID will not affect the process of building on the qualitative and participatory dimensions of the PSIA studies.

**DFID capacity:** It is important to build capacity for complex PSIA (e.g. the CAFTA reform PSIA), including within DFID. The expertise and enthusiasm for PSIA is derived from personal experience, for example with the pilot PSIA on electricity privatisation.

**Awareness of User's Guide and TIPS:** Yes. They are used in training other PSIA actors. There was very strong interest from workshop participants in the TIPS work and demand for useful and relevant tools for PSIA.

**Issue identification:** The process of issue identification is currently systematised within the GoH, and in particular within UNAT. At the beginning of 2004, DFID Honduras was the catalyst for a dialogue which, to begin with, had the aim of setting an agenda for policy priorities for research. Plans for PSIA on fuel tax, CAFTA and minimum wage reform came out of these debates. The World Bank has supported a PSIA on tax reform.

With regard to the fuel tax PSIA, there was political pressure to undertake this PSIA in the run-up to the election in 2005, as this was a very hot political issue. The IMF was concerned about the proposal for the minimum wage to increase faster than inflation. Both DFID and UNAT worked hard at putting together a multi-disciplinary research team for this work (which includes both a sociologist and an economist).

**Political context:** Honduras is in a transitional phase with elections looming in November. The effect this has on PSIA is to acutely politicise the process of policy analysis and debate. This is particularly so for issues of trade (e.g. CAFTA). It is vital that the political process be taken into account in order to evaluate potential PSIA influence. DFID Honduras took measures to reduce the vulnerability of technical expertise and networks developed around PSIA to the political cycle (for example by developing the Master Plan).

**Donor relationships:** By co-financing a small part of the World Bank technical assistance programme which supports the PRS process, DFID Honduras was able to assume a strategic position with the aim of supporting the poverty focus of the analysis. In this way, DFID Honduras has obtained leverage to engage alongside the World Bank in a much wider process of national capacity-building (of government and civil society), ensuring that PSIA link into the PRS policy-making process.

The World Bank does not have permanent field staff within country and depends on task managers who are responsible for specific assignments. They can commute relatively easily, given the 4-hour distance from Washington. This means that donor relationships vary according to the individual staff members, even more than in normal circumstances.

In terms of donor harmonisation around PSIA, there has been considerable interest expressed by several donors, i.e. CIDA, DANIDA, EU, NORAD, SIDA, UNDP, USAID. For instance, CIDA and the EU have pledged contributions to a multidonor fund established by DFID Honduras for GoH PRS implementation activities, such as PSIA which were included in the fund 2005 action plan. CIDA and DANIDA have contributed to the multi-donor Civil Society Fund (also established by DFID Honduras), which among other activities, promotes social auditing. DFID Honduras addressed the potential for donor harmonisation around these issues. Some donors have been more cautious and limited their PSIA involvement to issues of sector interest, i.e. USAID is carrying out analysis about the agricultural side of CAFTA.

The DFID Honduras office has now closed, and DFID is aware that it is dependent on other donors for its PSIA legacy to be preserved. Fortunately, there is currently a very positive donor environment, though because PSIA are less of a 'corporate policy' within other donor organisations, the engagement could result in 'more, but not better PSIA', for example neglecting to use qualitative and quantitative approaches in a complementary way.

#### **Civil Society Participation**

In PSIA completed so far, civil society participation has been limited to CARE (with strong constituencies among poor communities) and the University.

While civil society does have some influence on a national scale, there has not so far been much interaction of civil society with UNAT (consisting predominantly of economists). Yet, there is an openness within UNAT to embrace such interactions, given appropriate training. To this end they are seeking to forge an alliance with the Latin American Faculty for Social Sciences (FLACSO).

It was agreed at a workshop in November 2004 that there is great potential for civil society to engage with PSIA – demanding PSIA, within PSIA steering committees, included in research teams, using NGO research, etc. During the workshop a great deal of emphasis was placed on the need for capacity building for civil society actors, so that they can engage with and contribute to PSIA. One contribution to this has been that during the five regional PRS consultation meetings held between government and civil society actors, PSIA approaches have been shared.

#### **Methodology**

As a move towards fostering evidence-based policy-making, DFID arranged meetings between UNAT and University management and academic staff. There had previously been little collaboration between these institutions. Subsequently, bibliographic research for PSIA on minimum wage, fuel reforms and CAFTA was carried out by groups of students, and their inputs used by PSIA consultants. A couple of students were later hired by DFID Honduras, and one was hired by UNAT. These researchers received training and access to PSIA resources (User Guide and TIPS).

The PSIA studies undertaken so far in Honduras have been much stronger on economic analysis, and weaker on social, political and institutional analysis. Interactions between different parts of DFID helped to unpack a deeper stakeholder analysis and assessment of distributional impact in planning the fuel tax PSIA. The TIPS sourcebook was used but this was still in an initial draft stage.

The final report on the fuel price PSIA, which included quantitative and qualitative elements, was written by CAPEM (responsible for the quantitative research). The draft did not give equal weight to both qualitative and quantitative elements. Other notable absences of the report were a gender analysis, any mention of the environmental impacts, or political economy analysis. These issues were raised by DFID with UNAT and CAPEM and revisions are being made.

A key issue that is central to many PSIA that has emerged from discussions between DFID Honduras and DFID PAM was how to integrate qualitative and quantitative research. DFID Honduras in collaboration with DFID Policy Division (PAM team) successfully carried out a regional workshop in November 2004 addressing methodological balance issues. The topic was touched on but not discussed in depth. DFID Honduras expressed concern regarding the World Bank's apparent caution in moving towards a balanced qualitative - quantitative perspective and engaging in systematic qualitative social analysis. It was noted by DFID's Statistics Advisor that the lack of a systematic approach to their integration can lead to a weakness in final outcomes.

#### **Outcomes**

A PSIA on fuel levies may have led to a reduction on kerosene taxation. The process of involving CARE, the University and starting a dialogue around integrating qualitative and quantitative research has definitely made for 'better' PSIA

Salary negotiations around the minimum wage debates initiated by DFID and UNAT made available clearer data to inform public-private negotiations.

The main outcome is that PSIA's have started to build a culture around evidence-based decision-making. A high degree of national ownership and extensive capacity-building have been achieved.

The labour exclusion study performed by the Latin American Faculty for Social Sciences (FLACSO) has led to the establishment of a cooperation agreement between UNAT and FLACSO for building related capacities.

The PRSP now involves a specific chapter on PSIA's.

There are Honduran PSIA networks and there are suggestions of expanding them to cover Central America, and to include information and tool sharing. Guatemala and El Salvador have shown an interest in collaborating on market and trade studies.

A challenge faced by the government is that some research (i.e. on drugs policy) will involve engaging with complex power groups and addressing the underlying issues of a highly polarised and unequal society.

#### **Future DFID support to Honduras PSIA**

DFID developed an exit strategy in Honduras, this ensured that PSIA's and the PMS Master Plan were included as part of the 2005 action plan of the multi-donor fund for the GoH.

One of the central elements of the Regional Assistance Plan of the Latin America Department is the aim to influence the World Bank and improve its poverty focus. It is suggested by DFID Honduras that PSIA could provide one entry point for this type of influence and for making a poverty agenda more central to World Bank activities.

UNAT have requested DFID to continue to provide support in the form of follow-up and advice as they begin the next PSIA studies. They are particularly keen to have support on developing participatory methods and social analysis. This may be difficult to provide with DFID's withdrawal but attempts were made to put in place mechanisms for the ongoing monitoring of Multi-Donor Fund activities in conjunction with partner donors, civil society and the government.

It was suggested by DFID Honduras that a Drivers of Change type study of a PSIA process would be very revealing. This would enable the political economy of a policy-making process to be analysed.

A comment emerged during the interview regarding the disproportionate attention allocated within DFID to *ex ante* evaluation, compared to *ex post* evaluation and the comparative lack of influence of the evaluation department.

#### **Box A3: Indonesia**

A PSIA on rice tariffs in Indonesia was undertaken in 2002 at the request of the DFID Asia Division as an additional DFID-funded pilot (since there were no Asian PSIA pilots included in the original six). Time constraints led to the development of an innovative qualitative tool, the Policy Interest Matrix, which has been described as a precursor to the current 'Drivers of Change' framework. The Indonesian PSIA provides an interesting case study of the relative weight and influence of good evidence in a context of competing political actors.

#### **Process**

**Country ownership:** Levels of country ownership of the PSIA process were still low in October 2002 when the Indonesian rice tariffs PSIA was undertaken. The experience of the Indonesian PSIA showed the possibility of using the PSIA process to individually influence key political actors. The frequent transfers of politicians to different posts may work positively in spreading PSIA awareness.

The significant involvement of the Indonesian partner SMERU (see below) showed that this particular PSIA was not driven solely by donors' concerns and added to the credibility of the PSIA process.

**Institutional capacity:** After consultations between a DFID consultant and DFID Indonesia it was decided that DFID Indonesia should work in partnership with SMERU<sup>12</sup> on the Indonesian rice tariff PSIA. SMERU felt that the PSIA should involve CGE modelling but had insufficient capacity to undertake such work. A consultant with CGE experience in Thailand was hired to carry out the work and provide technical training for SMERU researchers. Unfortunately this capacity building did not occur due to the consultant's narrow focus.

SMERU only had limited capacity in the use of qualitative methods but their willingness to learn was illustrated by their participation in work with the DFID consultant.

**Issue identification:** 1-2 weeks were initially spent scoping for an appropriate PSIA topic by the PSIA consultants using key informant interviews. The need for a study of the likely impact of a changed rice import tariff was raised repeatedly by SMERU and other informants. The issue was timely as the Indonesian government was planning to develop a policy to protect local markets through use of an import tariff.

**Donor relationships:** The World Bank (which had conducted an earlier rice study) showed considerable interest in the findings. A workshop organised by DFID Indonesia to present the PSIA findings was well attended. Unfortunately, the lack of continuity in the Social Development Advisor post in DFID Indonesia limited the opportunities to capitalise

<sup>12</sup> SMERU, an independent think-tank consisting mainly of economists, has developed from a unit which was previously part of the World Bank (Indonesia office).

on the potential long-term impact of the PSIA study by maintaining the relationships established with political and civil society actors.

**Civil Society Involvement:** Five of the local NGOs and one of the think-tanks interviewed for the construction of the Policy Interest Matrix had opposing views around the issue of rice import tariff increases. This lack of unity was partly due to their lack of access to good information but was also because of the diversity of their constituencies (one NGO represented farmers rather than the poor). Interestingly, despite the campaigns around the issue, civil society were found to have very little impact on policy outcomes.

#### **Methodology**

Time constraints (PSIA limited to 6 weeks) imposed limitations on methodology, in particular the scope for primary data collection. The size and diversity of Indonesia led to a couple of interesting case studies being selected, one in Java, where the landless poor would have been affected to a greater extent by import tariff increase and one in Sumatra, with a prevalence of rice producers.

The CGE consultant produced a report within the 10 days allocated. However this required considerable deconstruction from the research team, in order to unpack underlying assumptions. The consultant attended an initial workshop where his findings were challenged but was very reluctant to provide any further involvement.

One weakness of the research was that it was based on 1995 data, which predated the economic crisis. Therefore while interesting findings emerged, they could not be considered to be robust.

The development of a Policy Interest Matrix to examine political processes was felt to partially offset the lack of in-depth qualitative work, which was made impossible by time limitations. The Matrix involved identifying key players in the policy process, their relative influence and desired outcomes (official and informal). Key informant interviews, printed documents, media articles and triangulation between these various sources were used to complete the matrix. The process confirmed that even strong data may only have partial influence over policy outcomes, and may be overridden by political players with vested interests. On the other hand, good evidence can be used much more persuasively than dubious evidence. Interestingly, the Ministry of Agriculture was identified as a stakeholder with considerable influence over policy outcomes but with an unresolved position regarding rice tariff increases and a stated commitment to relying on evidence. The Matrix therefore identified the Ministry of Agriculture as a key player worth lobbying.

The process provided an excellent example, within DFID Indonesia, for integrating qualitative and quantitative approaches. The Social Development advisor stated her increased appreciation and understanding for CGE models and praised her economist colleague's willingness to embrace qualitative approaches. However it was noted that the study would have benefited from a more iterative process between qualitative and quantitative research.

#### **Outcomes**

The government did not raise rice import tariffs. This was in line with the PSIA finding that raising tariffs was likely to have a limited positive impact on producers, but a negative impact on the landless poor. However the connection between the government decision and the PSIA is not entirely clear, though discussions held in the context of the PSIA Policy Matrix may well have influenced key players.

The PSIA process did bring NGOs to the table and highlighted their role in policy-making despite their current limited *influence*. The Policy Influence Matrix provided a tool for identifying key NGOs and encouraging them to become more effective policy players.

#### **Recommendations**

- Time available for personal reading is limited. DFID professional training should, therefore, incorporate a compulsory 'toolkit' on PSIA for both social development advisors and economists. This would ensure that PSIA become an integral part of DFID thinking.

- DFID should work to promote the institutionalisation of PSIA within DFID. This would increase the chances of PSIA affecting policy outcomes.

#### **Box A4: Iraq**

There is a PSIA on fuel subsidies currently being designed in Iraq, supported by DFID Iraq, and there are plans for PSIA on the reform of state owned enterprises and how to address the food welfare distribution system. There is an urgent need for reform on fuel subsidies which currently consume an unsustainable percentage (34%) of GDP and encourage smuggling of fuel to neighbouring countries. The issue of fuel subsidies is pivotal for Iraq since it forms a part of the stand-by agreement with the IMF and a debt cancellation agreement with the Paris club depends on the completion of the Stand-By agreement. In addition, chances of debt cancellation with other creditors will increase on successful completion of the deal with the Paris club.

Economists are taking the lead within DFID (particularly on the fuel PSIA) but the social development advisor has oversight of the process and some influence over the choice of consultants after the departure of an earlier consultant who claimed greater knowledge of PSIA than seems to have been the case. PAM has engaged closely in comments on the TOR drafted by this consultant, expressing strong concern about the complexity of approach suggested by the consultant, including a desire to develop a CGE model. PAM has highlighted the need to focus on more urgent issues to be addressed in Iraq, and suggested that the PSIA be a short and focussed exercise. In addition to providing evidence of the cost of the subsidy to the budget, the PSIA should focus on analysing key aspects of the fuel distribution system, and important political economy issues including improving understanding of

the consequences of the subsidy When the household survey is completed it can assist in establishing baseline conditions, and some simple direct impact analysis.

#### **Process**

**Country Ownership:** The political situation is far too volatile for any institutionalisation of the PSIA process. The current interim government will have only a short period in office, before a fully-fledged government is elected. Because of the current fluidity of the political context the impetus for PSIA is far more likely to come from DFID Iraq than from the Government of Iraq. Nevertheless, the GoI has not been antagonistic to DFID's encouragement to engage in *ex ante* research.

**Institutional capacity:** PSIA consultants have worked with a local think-tank, however there is very little capacity for research. There are no national research institutions. DFID Iraq is working to increase capacity from nothing in the Ministry of Planning. As a result of many years of sanctions, the majority of intellectuals have left Iraq. Education levels were the lowest in the region in the 1970s and 1980s, then during the Gulf War children stopped attending school. Consequently levels of illiteracy are high among 16-25 year olds.

It is difficult to recruit international consultants to Iraq because of security risks.

**Issue Identification:** DFID Iraq provides technical assistance to the Ministry of Finance with planning, executing and monitoring of the national budget and with relevant training. Following an evaluation of where they could best add value, DFID Iraq recommended a PSIA on the potential distributional consequences of lifting fuel subsidies and offered technical assistance in this. This offer was accepted.

A further PSIA has been suggested in collaboration with the Ministry of Industry and Minerals of the restructuring of State-Owned Enterprises (the government currently employs a large section of the Iraqi workforce and is sliding towards insolvency), though the GoI's main concern is to consider possible economic, rather than social, scenarios.

The participation of DFID staff in PSIA's is based on personal initiative. The PSIA on fuel subsidies was of particular interest to macro-economists, due to the attached IMF conditionality. Frequent staff turnover in the DFID Iraq office makes it difficult to generate momentum around PSIA's (or any DFID 'corporate' idea).

USAID are the largest donor organisation in Iraq. However pressure on individuals to spend their budget means that they have limited time for analytical thinking and time-consuming processes such as PSIA's!

**Political context:** The volatility of the political situation does constrain the political will to implement evidence-based policies where these are likely to be unpopular and cause opposition, as the lifting of fuel or food subsidies would be.

The political agenda in Iraq (led by the MoD) makes it difficult for DFID to concentrate on its development agenda. Contrasting objectives have led to different approaches to employment generation, for example, with DFID Iraq preferring an emphasis on building a skilled and sustainable workforce and the Ministry of Defence's focus on developing short-term employment projects operated by low-skill workers.

The political situation has caused a dearth of data. There have been no reliable sources of data for the last 25 years, imposing serious constraints on quantitative research.

**Relationships with other donors around PSIA's:** The relatively small size of DFID's budget (\$350m compared with US bilateral funding of \$14bn) reduces the influence that DFID is able to have. DFID is more likely to see progress around PSIA-related issues if the IMF institutionalises PSIA's into its processes. Donor harmonisation around these issues would then be easier.

#### **Methodology**

Security issues prevent participatory research. PSIA research has had to be limited to looking at household budget surveys and some modelling.

#### **Outcomes**

It is too early in the PSIA process to ascertain its outcomes. Endorsement of PSIA recommendations will depend on the nature of the next government.

#### **Box A5: Malawi**

DFID Malawi has had only limited involvement with PSIA's. DFID economists attended the World Bank-sponsored workshop during which findings were presented regarding the World Bank funded ADMARC PSIA. The future of ADMARC, a large grain marketing parastatal organisation, was reviewed in this PSIA which examined the likely impact of full commercialisation on rural and urban markets, food security and different wealth groups (in particular remote rural households) in Malawi. Occasional bail-outs of ADMARC following accumulated losses are regarded by some as having been responsible in the past for derailing the government's budget, and so the study was of particular interest to economists in DFID, as they viewed commercialisation as creating an opportunity for avoiding a recurrence of the fiscal drain that ADMARC placed on public resources.

Within the DFID Malawi office, responsibility for PSIA's is assigned to social development advisors. Due to staff turnover there has been little continuity in this role. Other staff are likely to get involved in a specific PSIA, if it is of particular sectoral/disciplinary relevance (e.g. ADMARC of interest to macro-economists).

#### **Process**

**Country ownership:** In theory, the Ministry for Economic Planning and Development has been identified as a vehicle for the identification and coordination of PSIA's. In practice, it is very unlikely for a government body in Malawi to take ownership of what is clearly a donor driven agenda, unless it is the only means of accessing funding. Very few Malawian government officials respond to political initiatives by questioning them in any way. This is because of: (a) the absence of such a tradition and lack of in house capacity to conduct such studies and (b) the 'big man' culture & unquestioning acceptance of president / minister's proposals. The latter is particularly significant in Malawi where the minister's word is law. If donors suggest a PSIA it will probably be agreed to (primarily) because the GoM does not want to jeopardise donor funding.

The incoming President has been carving out his own niche and has been emphasising his economic growth strategy while downplaying the current PRSP, which expires later this year. Opportunities for debate with the government around PSIA's have been quiet over the past year.

**Institutional capacity:** A major issue, that is relevant to most sub-Saharan African countries, is the government of Malawi's very weak capacity for research, economic analysis and evidence-gathering. This is a long-term issue due to the difficulties in retaining qualified staff (rapidly promoted to better paid posts within government or international organisations). DFID Malawi suggested that currently, the most realistic objective is to seek to develop capacity in government for commissioning and overseeing external consultants. However, Government capacity will still need to exist to use the results of research effectively and there will still need to be the political will to base policy-making (at least partly) on evidence. There will also need to be the function of PRSP monitoring and evaluation, indicator tracking for progress towards the MDGs and District and Sectoral M&E.

**Issue identification:** There is very little chance of the Ministry generating its own PSIA's. It is much more likely for PSIA's to originate from donors, because of greater capacity and a current lack of political will to assess the distributional aspects of economic reforms.

**DFID Participation** in the World Bank's ADMARC PSIA seems to have been limited to their attendance at a presentation of findings at a workshop, well attended by civil society, government and donor staff. (Criticism of the extent of civil society involvement in producing the PSIA and of delays in dissemination of findings are summarised in the Oxfam report 'From Donorship to Ownership' Oxfam 2004). The highly political and timely nature of the ADMARC PSIA is probably a main factor influencing the turnout.

**Donor relationships:** There is a good relationship between donors in Malawi including between the bilaterals and with the World Bank. Information is shared, but there is little collaboration on PSIA-type activities. There are few donors in Malawi and each tends to concentrate/fund a handful of targeted sectors. There is an assumption, for example, that since the World Bank has been identified as the obvious lead on privatisation issues, other donors are not actively involved but remain informed observers.

#### **Outcomes**

A clear benefit in the PSIA process was the increase in information available to Malawian Members of Parliament and the Malawian general public. The PSIA informed public debate with an understanding of why the World Bank and IMF had made the commercialisation of ADMARC a condition for their programmes. The financial and social trade-offs were well presented at the World Bank workshop. However there was little scope for amending the wording of the Parliament Act authorising ADMARC's commercialisation (passed very soon after the presentation of PSIA findings), a requirement for Malawi to realign itself with IMF and World Bank conditions.

ADMARC's commercialisation is still an ongoing issue, and after a year 'on pause', due to the political cycle, the World Bank is advertising for consultants to develop proposals regarding how to maintain the 'social function' of ADMARC. DFID does not expect further involvement, other than information sharing.

#### **Future DFID Involvement in PSIA's in Malawi**

There is a definite commitment in the DFID country office to 'looking at the whole picture'. Ten years ago, it was likely that a policy impact assessment would have been limited to economic considerations but would have neglected social issues.

DFID Malawi is open to the idea of involvement in PSIA's, where policies emerge within the sectors they are interested in (e.g. aid and finance management, health, education, safety, security & access to justice) and that have clear trade-offs in outcomes for various stakeholders.

Within DFID Malawi, there is some scepticism regarding the scope for applying donor-led approaches in Malawi. For example, the PRS process is currently on hold. DFID Malawi is committed to increasing evidence-based policy-making, which they are actively encouraging by seeking to strengthen evidence-gathering processes and institutions. This includes support to a M&E unit responsible for PRSP and MDG monitoring which has been set up in the Ministry of Economic Planning and Development to increase evidence.

#### **Box A6: Nepal**

DFID Nepal has limited experience of conducting PSIA's. While donors and the Government of Nepal (GoN) have had discussions on possible PSIA's, these have never been followed through and completed. DFID Nepal's main involvement in PSIA has been in discussions on a PSIA on WTO accession. The World Bank and Action Aid have also had discussions about a PSIA on increases in kerosene prices. UNDP has also been undertaking Human Development Impact Assessments on trade.

The conflict in Nepal means that that the reform agenda is not highly prioritised, instead conflict-related issues, such as internally displaced people, take priority. However, there is some institutional capacity within Government and, to

a certain degree, government and donor commitment to strengthening the evidence base of policy-making processes which could see the use of PSIAs in the future.

#### **Process**

**Political context:** Nepal's political instability and conflict is affecting policy-making and development strategies. The PRS is still being implemented and DFID still has active sector wide programmes in health and education but increasingly schools, health centres and other public services are not able to function due to the conflict. The space for development is diminishing as the role of the military increases and the King continues to suppress democratic activities. If the situation deteriorates further, DFID may have to consider implementing a humanitarian programme.

**Country ownership:** There is some tension between the GoN and the World Bank and IMF over reform issues including privatisation, financial sector reform and fuel pricing. There is a commitment to the objectives of the Poverty Reduction Strategy (PRS) from some senior technocrats within the government, who have remained in post long enough to have an impact. However this expertise is highly individualised, with limited commitment to the PRS more widely in government or amongst other national stakeholders. The high rate of transfers of politicians between ministerial posts, which is even higher than among civil servants, inhibits political ownership of the PSIA process.

**Institutional capacity:** The collection and use of data in the past has been dubious. To improve data collection, the GoN has recently established a Poverty Monitoring and Analysis System which is based within the National Planning Commission. This new system aims to improve the collection of data and production of analysis and statistics on poverty. However, conflict makes data collection very difficult in some parts of the country. There is limited analysis, particularly on qualitative research, and dissemination is delayed.

While Nepal generally has good planning and budgeting structures, there has not been a tradition of evidence-based policy-making. Policy innovations are often based on policy transfers of 'best practice' from other countries (mainly India). Studies being produced by donors and NGOs are being fed into the policy debate but there is low capacity within the government to digest study findings or to translate them into policy choices. In particular, there is limited capacity in the government to analyse how to target interventions to ensure they reach the poorest and do not succumb to elite capture.

**DFID Capacity:** Within DFID Nepal, most staff have not been involved in PSIAs in the past and there is a fairly low office-wide profile given to PSIAs. Therefore while there is no objection to them in principle, not all staff would be likely to push for this type of study.

*Awareness of User's Guide & TIPS:* Varies amongst staff – some have read them

**Issue identification:** PSIAs are not being particularly driven by the government or donors in Nepal. The reason given is that there do not appear to be obvious topics for PSIA studies to focus on. The discussions that took place between the World Bank and Action Aid about the increase of kerosene prices were initiated by the World Bank who was concerned that present subsidies were not benefiting the poor but rather that cheap kerosene was being smuggled and illegally distributed in the black market. The discussion on a PSIA on kerosene pricing was stalled as the World Bank and GoN did not think the reform of kerosene prices was likely to have a significant poverty impact. Also, Action Aid pulled out as it is their policy not to take money from the Bank. While the GoN has removed some kerosene subsidies, this is unlikely to have resulted from the initial PSIA discussions on this topic and is probably more a result of bilateral discussions with the World Bank.

A strong NGO interest on trade issues and accession to the WTO (particularly on the impact of trade liberalisation on food security) initiated discussions around a possible PSIA on WTO accession. The discussions that DFID took part in on a PSIA on WTO accession also stalled due to limited GoN interest and also because it was felt by DFID and World Bank that WTO accession would not have a significant impact on poverty.

UNDP is undertaking a Human Development Impact Assessment on trade and is specifically looking at trade and food security and the TRIPS agreement. The work is being carried out in partnership with GoN and civil society organisations but has not involved other donors apart from some sharing of documents. This work, however, will probably not result in a comprehensive PSIA.

**Participation:** Most NGOs (international and national) are engaged in service delivery activities and are used by the government and donors in this role as they are seen as more neutral in the present conflict situation. There is limited advocacy work by NGOs but there are examples of issues, such as trade and the TRIPS (trade-related aspects of intellectual property rights) agreement, being raised by civil society groups and entering the policy arena. However, it is unlikely that civil society currently has had any real impact on policy decisions.

**Donor relationships:** Donor co-ordination at PRS level in Nepal is quite limited and tends to focus on co-ordinated work at the sector level. There is a lack of joined up donor effort to push the PSIA agenda forward despite there being general agreement that donors and the government need to improve the evidence base of policy-making and look at the poverty implications of their work.

Donor relationships are generally good although the relationship between UN and World Bank is strained. This poor relationship undermines the attempts to co-ordinate donor work on trade which is facilitated by DFID Nepal.

There is a general lack of transparency in the discussions around the reforms included in the Poverty Reduction Support Credit (PRSC) and Poverty Reduction and Growth Facility (PRGF). Although DFID raised the issue of undertaking PSIAs on some of the proposed reforms in their current PRSC, the Bank did not think that any of the reforms warranted PSIA. DFID is keen that these discussions are opened up so the GoN and other donors can initiate PSIAs on proposed reforms included in these framework agreements.

#### **Future Involvement**

Current political instability and the lack of donor enthusiasm for PSIAs, makes it unlikely that any PSIAs will be funded or implemented in Nepal in the short term. However, the introduction of the new Poverty Monitoring and Analysis System and some improved capacity within government means that a PSIA approach to policy analysis is something that could be used in the future. Similarly the annual immediate action plan linked to the PRS will be able to identify the proposed policy reforms and which of these would benefit from a PSIA analysis.

DFID Nepal may be interested to see future PSIA work on some of the issues emerging from their service delivery programmes (cost recovery and fee charging policies in health and extending free text books for secondary schools).

When an issue has been identified as being suitable for a PSIA, DFID Nepal would appreciate input from the PAM team on the drafting of Terms of Reference. The development of a pool of recommended consultants would also be useful.

#### **Box A7: Pakistan**

Pakistan is still in the early stages of PSIA involvement. DFID Pakistan hosted a workshop two years ago on PSIAs, which was attended by government staff. A positive response by the government led to a PSIA on micro-finance being requested by the government and funded by DFID. TORs have been written, but work has not yet started. DFID Pakistan hopes to provide the Government of Pakistan with an example of a replicable *ex ante* research exercise in real policy time.

#### **Process**

**Issue identification:** Following the DFID led workshop on PSIAs, the government and DFID Pakistan worked to identify a suitable topic for a pilot PSIA. DFID Pakistan was keen that the initial PSIA should not concern a politically sensitive issue. Two topics were proposed: micro-finance and energy sector reform. The government decided to proceed on micro-finance.

**Country ownership:** The PSIA process is still in the early stages. Though the TOR have been agreed and DFID Pakistan has confirmed funding, and a steering committee on which various key government ministries are represented, things have proceeded slowly. This may be as a result of a heavy government workload, or a lack of strong commitment to what may simply appear as another donor initiative.

**Donor relationships:** So far, there has been little work on PSIAs in Pakistan by other donors, other than DFID Pakistan and the World Bank. Though other donors were represented at the initial workshop, debates around PSIAs do not appear to have gathered momentum in the donor community to date. The Bank started a PSIA on the privatization of the energy sector, which was abandoned due to its politically sensitive nature (DFID Internal Summary, 10 March 2004).

**DFID involvement:** The Social Development Advisor was initially responsible for organizing the workshop on PSIAs. Responsibility has recently been passed over to the Statistics Advisor, on the basis of expertise and previous experience.

DFID PD provided useful inputs and assisted DFID Pakistan in the drafting of the TOR and appropriate methodologies and leading a seminar at the DFID workshop. Appreciation was expressed for DFID PAM's function as an up-to-date resource on PSIAs and ability to apply lessons drawn from other countries.

#### **Methodology**

The TOR are quite broad, and specify that the lead consultancy firm with international experience (not yet identified) will design a more focused PSIA and implement it. The government of Pakistan specified that the lead research team should employ local research teams, selected through open competition, to carry out the research.

The TOR outline that primary collection of quantitative data should be limited, and that the PSIA should use existing quantitative data and use qualitative focus group discussions. The underlying intention was to demonstrate that a PSIA could be implemented with limited time and resources. Yet, a year has already elapsed and work has not started on the PSIA, leading to concerns that this initial experience may not communicate the intended message about the user-friendliness of PSIAs.

#### **Future Involvement**

For now, the focus within DFID Pakistan is to complete the PSIA that is already underway.

#### **Box A8: Europe and Central Asia Department (ECAD): Russia, Central Asia, South Caucasus and Moldova**

DFID has a fully decentralised country office in Russia, small offices in Armenia, Georgia, Kyrgyz Republic, Moldova and Tajikistan. This a very varied region containing both low and middle income countries, therefore the generalisations below may not apply in all situations.

DFID has been involved in a number of PSIAs in the region, particularly in Armenia, Russia and Tajikistan. In this region, DFID primarily works in partnership with other donors and has mainly worked with the World Bank on PSIAs.

#### **PSIAs in the region**

DFID Russia has provided support to a PSIA as part of a wider joint World Bank/DFID project on "enhancing the measurement, monitoring and evaluation of poverty in the Russian Federation". This project has been split into two phases with the first focusing on the development of forecasting tools to estimate the welfare impact of social policy

reform. The final report of this study reviews the current legislation on housing reform and evaluates various housing reform scenarios. The second phase will be led by the World Bank and will consist of training on impact evaluation techniques and will support the evaluation of poverty alleviation programmes and define ways to improve targeting of social assistance programmes.

DFID CASC/M/Tajikistan initiated and financed a PSIA-type exercise in Tajikistan, which assessed the potential poverty impact of the EBRD's micro-finance facility. DFID expects that this project assessment will feed into wider debates on the role of micro-finance in pro-poor policy.

DFID CASC/M/Armenia had considerable input in 2002 into the Armenian PSIA on reform of water policy (removal of water subsidies by 2007, improving reliability and quality of delivery, repair of infrastructure and tariff increases). The results from this PSIA appear to have had an impact on policy development with some subsequent policy decisions reflecting the conclusions of the PSIA (DFID Internal Summary, March 2004).

### **Process**

**Country ownership and participation:** So far, in general, there is little sense of PSIA's being institutionalised within national governments. Nevertheless, the government was involved at every stage of the process of the PSIA in Russia. The World Bank and DFID held a workshop in Russia to raise awareness about PSIA's and provide training to government. However, the situation in Russia is unique and other countries in the region have not seen the same level of government endorsement of, and participation in, the PSIA's.

There is a tradition of policy planning in this region. PSIA's and poverty assessments have benefited from this tradition. For example in Tajikistan, a PSIA on energy tariff reform has contributed to a wider programmatic approach to poverty assessment which has included capacity building. What is perhaps lacking in national policy processes is an understanding of the depth and focus of evidence-based policy-making implied by a PSIA-type analysis.

Results from PSIA's may weakly inform national policy formation because a range of other incentives, derived from political power networks, can prevent evidence from informing policy decisions. In addition, the political will for social development varies between countries and government bodies.

The World Bank agrees in principle with the concept of country ownership of PSIA's. However, officials from the Bank will generally proceed with a Bank designed and implemented PSIA, even if country governments are not convinced that a particular study is needed, in the hope that the results will still influence policy when final report is presented to the government.

**Political context:** (in Russia) progression from the first to the second phase of the Russian PSIA has been delayed due to a massive re-organisation of the Russian government and it has taken the World Bank and DFID over a year to identify new partners within government to take this work forward.

A tradition of top-down decision-making in the region means that historically there has been little space for policy dialogue informed by evidence. Data gathering systems are currently being improved, but data has historically been weak. There has been a deep-rooted suspicion of data and people have tended not to believe data-based evidence. The use of evidence in policy formulation has depended, to a large extent, on the capacity and willingness of individual politicians to use and interpret data.

The relatively recent entry of countries in the region into relationships with donors around aid and development, results in a 'concept challenge'. Some mainstream ideas and concepts in current development debates are difficult to translate into vastly different cultural and historical contexts. For example, the term 'poverty' has only recently entered into policy discourse in the region and in Uzbekistan, the term is still replaced with 'welfare', even in the context of the PRS.

**Issue identification:** DFID ECAD (Europe and Central Asia Department) staff felt that PSIA's were most relevant and likely to influence national policy when they were initiated by the government, as in Russia. However, PSIA's in the region were often instigated by donors. DFID has a policy of harmonising its programmes with other donors and it does not have the funding or capacity to manage PSIA's independently. This has constrained the ability of DFID ECAD/Russia/CASC/M to implement PSIA's unless other donors are interested.

The World Bank has considerable influence over the selection and direction of PSIA's. In Tajikistan for example the World Bank policy for energy reform has influenced the choice of PSIA.

Governments in the region are showing some interest in gathering evidence around social protection reform. The Government of Tajikistan, for example, is keen to know if child benefits are reaching the poor. Governments are strongly motivated to select certain PSIA's by their need to identify policy impact on large constituencies within their electorate. Recently, for example, a social benefit reform in Russia was pushed through very rapidly, leading to large demonstrations by pensioners. Well designed *ex ante* research might identify such interest groups, the likely direction and scale of the reform on them. This might enable government to design mitigating measures or, at a minimum, communicate to the electorate the costs and benefits of such reform. This type of process might reduce the likelihood of protest demonstrations.

**Institutional capacity:** Capacity for good quality research varies immensely across the region. Central Asian countries are more poorly resourced than Russia, for example. Research in Armenia was carried out by a semi-autonomous think-tank which is partially funded by the Ministry of Finance.

**Civil Society Participation:** In the region, it is not taken for granted that civil society actors or service users should play a role in policy-making due to a tradition of centralised and top-down decision making. This has not been altered by PSIA processes.

Civil society is very weak in the poorer Central Asian countries.

**Donor relationships:** Donor presence in the region is quite recent, compared to other parts of the world. For example, donors have only had a development (rather than humanitarian) presence in Tajikistan for the past 5 years."

Although the World Bank generally instigates and leads on most PSIA's in the region, DFID country offices are keen to co-finance the PSIA's as they feel this is a way of influencing the process and the World Bank. The main channel for engaging with the World Bank on PSIA's has been through a request to DFID ECAD for funding.

DFID ECAD/Russia/CASCM have good relationships with the World Bank and both initiate consultation processes. However, information flows do often depend on personal relationships. Progress reports are not systematised but there is frequent phone contact between DFID and World Bank teams.

Country offices have good relationships with their respective governments. However, there have been occasional incidents where donors have treated national staff with a lack of respect.

In Tajikistan, DFID ECAD/Tajikistan used the opportunity offered by the review of their input into the EBRD's micro-finance facility to encourage a greater pro-poor focus within a commercial organisation. This PSIA-type exercise is attracting interest in other DFID teams because it is providing insight into the role of micro-finance in small and medium businesses.

The EU is a big player, particularly in countries that are working towards EU integration. However, it has only recently embraced PRS processes in Central Asia and has played no part in PSIA's so far.

There are a number of other PSIA's underway in the region which are being funded and supported by other donors. DFID is not officially aware of these. However, if DFID receives concept papers from the World Bank, they will respond suggesting PSIA's where appropriate.

#### **Methodology**

The interviewee from DFID Russia commented that while PSIA's provide a useful focus on the analysis of policy impact, they are in many ways a repackaging of old ideas rather than the introduction of new content.

There is little expertise or understanding of qualitative research in the region. DFID ECAD are working with the World Bank to introduce the collection and use of qualitative data alongside quantitative evidence. The idea of quantitative data collection using samples instead of a comprehensive census is also still new.

In Russia, local and international research teams have worked together on the housing reform PSIA. After initial tensions around the respective roles in the partnership, relationships were very positive. For example, the Russian experts feared that their work might be critiqued by the international consultants and that this process would negatively affect their reputation. Local teams received ongoing training at every stage of the research process.

The World Bank's approach to PSIA's has been different to DFID's, with analysis being carried out in-house. However, their general understanding of PSIA's is in line with DFID's and DFID ECAD staff feel confident collaborating with the World Bank on PSIA-related capacity-building and training activities.

A need for training (of government staff and local partners) was identified to clarify the definition of PSIA and increase an awareness around analytical and causal processes in policy-making. This objective was partially achieved in Russia, through a workshop led by the World Bank. Training is also needed in qualitative research and economic modelling. However, the interviewee felt that some within the donor community have unrealistically high expectations of the kind of in-house research capacity that one might expect in government (with, for example, few British government departments capable of undertaking high quality economic modelling).

*Awareness of User's Guide and TIPS: Yes*

#### **Outcomes**

Due to a lack of government involvement, most PSIA's have ended up as donor-led research exercises rather than being embedded in national policy processes. This separation has been compounded by the complex and analytical presentation of some World Bank PSIA reports, which has made them difficult for policy-makers and policy stakeholders to absorb. PSIA results therefore appear to have had a very limited impact on policy reforms in the region. However, a DFID Internal Summary (March 2004) suggested that the Armenian water PSIA had led to policy decisions that reflect the conclusions of the PSIA. But there is no further evidence to support this positive conclusion.

Recommendations from the Russian PSIA report were included in the World Bank's Poverty Assessment and disseminated widely in the region. The first phase of the PSIA process in Russia provided a good example of *ex ante* policy evaluation, and the second phase will include extensive training on PSIA concepts and processes.

The PSIA with EBRD highlighted that, contrary to previous assumptions, micro-finance loans were positively affecting poor people indirectly, despite their being unable to access loans directly. EBRD has absorbed results from the PSIA and increased its poverty focus. This may lead to wider impact on similar ventures in the private sector.

#### **Future Involvement**

DFID ECAD/Russia/CASCM will continue to pursue PSIA-related work, with the aim of improving the usefulness of the studies for government and of increasing government participation. The aim of increasing the poverty focus of policies will be preserved, though the terminology may vary: regional inequalities might be another way of looking at distributional issues.

DFID will also continue to attempt to influence other donors through co-financing. This is likely to have greater success the earlier the involvement.

There is a shift in some countries to allocate social programmes according to poverty status rather than merit, as was the case previously. PSAs may be able to capitalise on this transition.

#### **Box A9: Rwanda**

DFID Rwanda played a major role in the pilot PSIA on macro-economic and public expenditure reform.

##### **Process**

**Country ownership:** The Rwandan PSIA was country-owned and clearly led by the government. The level of country ownership led to soul-searching within DFID Rwanda as to whether they were right in encouraging the government to challenge the World Bank and IMF on traditional orthodoxies of debt repayment. DFID Rwanda were unwilling to expose the government, if the argument led to a 'false trail'.

**Institutional capacity:** There was not sufficient capacity within government to carry out the PSAs, which led to a request for DFID involvement. This led to a diminished control within the government over decisions concerning the robustness of data and the risk involved in challenging World Bank conventions around public debt.

**Issue identification:** The pilot PSIA was initiated by the government of Rwanda, and came out of the PRGF (Poverty Reduction and Growth Facility) which encouraged multiple policy scenarios to be considered.

**Research:** A couple of junior economists in the Ministry of Finance were involved. DFID Rwanda saw this as being very positive.

**Participation:** The content of the PSIA made it quite inaccessible to civil society. The DFID Rwanda office did have contact with Oxfam (international office, not much contact with local offices).

##### **Outcomes**

The immediate outcome was not sufficiently robust for the IMF to change their policy on the limit for the fiscal deficit of Rwanda, so government appetite to follow up on this PSIA is limited. However subsequently it appears that PSIA has had an impact on IMF thinking, at least in terms of their rhetoric. Emphasis has shifted from the size of the fiscal deficit to debates around sustainability and predictability of its financing (DFID Internal Summary, March 2004).

#### **Box A10: Tanzania**

DFID Tanzania is co-financing a PSIA on local taxation reform. This is the second PSIA in Tanzania and both have originated within the World Bank. DFID Tanzania staff have commented that the World Bank's unilateral identification and internal processing of PSAs, appears to contradict the principles for effective PSAs. In addition, they have observed that the IMF has not engaged with PSAs, despite such observations being made at Board

#### **Box A11: Vietnam**

PSAs in Vietnam have occurred within the broader framework of the World Bank led Poverty Reduction Support Credit (PRSC) programme, through which resources from a number of donors are channelled. There are ongoing PSAs on State Owned Enterprises (to understand the distributional impacts of retrenchment), WTO accession (to look at the impact of price fluctuations and focusing on one poor region) and land reform (to investigate the economic and social impacts of opening up land commodity markets). These have all been led and funded by the World Bank. There is also a more comprehensive research programme, yet to start by the government, to look at broader WTO accession impacts in various sectors particularly in areas that impact the poor such as

agricultural production and aquaculture.. DFID Vietnam are funding the PSIA work on the reform of Vietnam's state-owned National Coffee Corporation, VINA CAFÉ, as part of its support to the government's pilot restructuring of SOEs. The work is of great interest to Government of Vietnam, since VINA CAFÉ operates in one of the poorest and politically sensitive region of the country.

In the future, DFID Vietnam seeks a greater focus on 'giving a human face to PSAs'. For example seeking opportunities to work on issues of user fees and understanding their impact on access to basic services for the poor and marginalised. DFID Vietnam is keen that PSAs are used as a tool to increase evidence-based policy-making and stakeholder participation in policy processes.

##### **Process**

**Country Ownership:** The government has a strong commitment to poverty reduction and is taking the lead in the policy processes emerging out of the PRSC programme. However PSAs are not yet a priority on the government's agenda and are not necessarily central to policy debates. Given that Vietnam has a very full plate of reforms, PSIA as a tool for evidence based planning is not prioritised by the Government.. The steps that have been taken so far towards opening up the national economy to global markets have produced rapid economic growth *and* poverty

reduction, there is not a sense of urgency to carry out poverty impact assessments.. DFID Vietnam feel that as the impacts of economic reforms become more complex in the years to come, there will be an increased demand on the part of the Government for ex ante social and economic policy impact assessments

DFID Vietnam suggested that PSIAs can be considered government-owned when the government is willing to use its own resources to pay for PSIA work. The PSIAs are currently led and funded by donors. The government is open to using the analysis that is produced by PSIAs, but not yet ready to fund such mechanisms.

**Issue Identification:** The process of issue identification has been led by the World Bank. DFID Vietnam expressed some concern that the current agenda of PSIA did not address issues that directly impact the poor

**Timing of studies:** It is too early to compare PSIA timetables with the relevant policy cycles. One example was quoted where the government chose to delay the final PSIA analysis until after the receipt of the final offer from the WTO for accession. Various preliminary *ex ante* studies have been carried out already on various WTO-related issues, but the government has decided to delay the design of mitigation measures until the final WTO offer has been received.

**Political context:** Vietnam is a one-party state and the space for research and dialogue around policy is still limited. DFID Vietnam hopes that, bearing in mind this context, PSIAs can be used to open up the space for dialogue and debate and to empower stakeholders in policy participation.

**Institutional capacity:** The government of Vietnam still lacks the necessary financial resources and research capacity for evidence-based policy-making. It is questionable whether they have the necessary political will to move strongly in this direction. There is a general weakness in capacity for research within Vietnam. For example, there were very few national researchers capable of understanding the content of the World Bank's econometric model to be used in the PSIA on WTO accession.

Since the World Bank has so far led the PSIA process, PSIAs have not been generally accompanied by efforts to build capacity for research at local level. They have focussed on producing very high quality products. More recently the World Bank is using the "Poverty Analysis and Policy Advise Programme" to strengthen capacities of national research institutions through collaborative research.

Building capacity for research has been identified by DFID Vietnam as one of the major challenges facing evidence-based policy making in Vietnam.

**Relationships with other donors:** DFID Vietnam feels that it has been able to take advantage of its good relationship with the World Bank to influence the poverty and social impact issue agenda and insist on greater involvement of government institutions and of civil society. There are good flows of information between DFID and the World Bank around PSIAs. DFID Vietnam has acted as a bridge between the World Bank and the larger donor community. Nordic agencies, GTZ, CIDA and the AusAID have responded very positively to DFID Vietnam's input on PSIAs

**Civil Society Participation:** There has been very limited participation, apart from a few research organisations. National researchers attended a World Bank workshop setting out plans for the WTO accession PSIA, but this was too technical for the majority of the audience. Furthermore, PSIA reports are not easy to access. Even a DFID staff member had difficulty tracing a copy of the PSIA report on SOEs.

*Awareness of PSIA User Guide and TIPS Sourcebook: yes*

#### **Methodology**

DFID Vietnam stated clearly that the process of the PSIA is of equal or greater importance than the PSIA product, and this should be reflected in the approach to methodology. Instead of relying on international consultants to carry out research, it is vital to use opportunities offered by PSIAs to build local capacity for research.

The PSIA on WTO accession was led by an international team of consultants. This example has shown clearly that in-house and highly technical reports remain inaccessible for stakeholder use.

#### **Outcomes**

The first PSIA on SOE reform looked at both the positive effects of the reforms on efficiency and at how to set up safety nets for retrenched workers. These workers were then compensated for their loss of work. It has since been found that there have been few detrimental effects from the reform and that most retrenched workers have been able to find other work and invest their compensation money sensibly. The second phase of the work on SOEs which DFID is leading has emerged out of the first stage.

#### **Future involvement**

Over the next year DFID Vietnam would like to encourage the GoV to focus on PSIA issues that directly impact the poor and the World Bank to involve local institutions far more in PSIA processes. Encouraging evidence-based policy-making is a cross-cutting theme within DFID Vietnam that is applied in all its programmes. DFID Vietnam recognises that resources are needed to fund this type of work, and will seek to create donor funding mechanisms to support government policy-making processes.

A medium term aim is capacity-building for PSIAs within government, research institutions and civil society. DFID will continue its work on VINA CAFE but in general will not seek to commission PSIAs directly, but will support other donors and national research institutions to do so.

## Box A12: Yemen

DFID Yemen led a PSIA in Yemen on fuel subsidies in response to a request by the Ministry of Planning. The Government of Yemen (GoY) found itself under a lot of pressure, externally from the IMF demands that all fuel subsidies be lifted (almost 20% of government's annual budget), and internally from middle classes and smugglers, anxious not to lose the substantial subsidy benefits. The request to DFID Yemen for assistance with a PSIA followed IMF's withdrawal as a result of the GoY bowing to internal pressures.

### Process

**Country Ownership:** The issue was raised by the Government of Yemen and final findings were presented to the Minister of Planning who originally requested the study. The response to the report was that a greater macro-economic understanding would have been preferred to the emphasis on social analysis.

Though there was a sense that the GoY were trying to respond to placate the IMF, the PSIA was not a condition of the IMF returning and represented a genuine desire to get a better *ex ante* view of what would happen in Yemeni society if subsidies were to be lifted. While the process is a long way from being institutionalised within national policy-making processes, this could develop out of further PSIA involvement.

**Institutional capacity:** It is possible that local researchers were used for the research fieldwork but the leading team consisted of international independent consultants.

**Institutional Capacity within DFID:** DFID Yemen requested recommendations of suitable consultants from the DFID PAM team. The recruitment of consultants was a time-consuming process, because a database was not readily available. The PAM team's assistance in drafting Terms of Reference and sourcing the research team and their expertise gained from involvement in other PSIA's provided the Middle East team with the capacity to engage in the PSIA. It was noted that PAM's work has contributed to the standardisation of PSIA processes, and is a valuable resource. DFID's approach to PSIA's provides DFID staff with tools to temper hard-line economic approaches to policy-making.

**Awareness of User Guide and TIPS:** PAM team used these resources to assist MENAD team.

**Relationships with other donors:** A PSIA on fuel subsidies had previously been carried out by the World Bank, which focused on the macro-economic and budgetary aspects of fuel subsidy reform. The time limitations on DFID's PSIA led them to draw extensively on the World Bank's PSIA in order to get to grips with the macro-economics of the issue and concentrate on the social and distributional implications of the proposed reform and the safeguards necessary to protect the most vulnerable stakeholders. The World Bank (whose PSIA was published shortly after DFID's PSIA) also used the findings from DFID Yemen's PSIA to complement its own work. This symbiotic partnership was very productive and beneficial to both donors, and avoided replication of work. The Bank consultants have been recommended for a similar PSIA in Iraq.

**Political context:** The political system is not deeply rooted in evidence-based policy-making. One man has been in power for so long and uses subsidies to placate sections of society, even against evidence that subsidies are expensive and carry an enormous opportunity cost on the Yemeni society.

There is also a culture in the Middle East of public expectation that government should provide certain things for free to the whole population. Economy reforms that move towards more sustainable budget management will necessarily challenge these expectations.

**Civil Society Participation:** There was wide participation in the consultation phase of the PSIA. Women, local and international NGOs, and trade unions participated in focus group discussions. The consultation helped shift understanding among participating civil society actors from an expectation of fuel subsidies as a basic right of all citizens to a wider view of sustainable development and government budget alternatives. In the long term this process of raising awareness could lead to civil society playing a more active role in lobbying government for a full removal of subsidies but not in the lifecycle of the PSIA.

Civil society voices may have influenced policy indirectly since their views were captured in the report which was read by the GoY and the World Bank. However, findings were not disseminated back to participants after the compilation of the report.

### Methodology

Participatory approaches were used. Focus group discussions were held in which a wide range of stakeholders were consulted. Lack of time limited the number of locations in which qualitative research could be carried out.

While DFID research was predominantly qualitative, quantitative inputs from World Bank work led to balanced PSIA work.

### Outcomes

Since the DFID report and Bank report (with input from the DFID PSIA) were published, the GoY has lifted the subsidies by stealth (without any announcement), suggesting that PSIA recommendations have been endorsed. The reforms led to demonstrations and riots outside Parliament.

The DFID Yemen PSIA highlighted the need for a greater public understanding of the rationale for lifting the subsidies. A recommendation that emerged from the PSIA was for a public awareness campaign to inform the public about the distortionary effects of fuel smuggling and the cost to the country of subsidising oil reserves (with

considerable wastage), due to run out in 2020 rather than investing in diversifying the economy away from oil dependency.

The participation of civil society actors in the PSIA process may, over time, increase their capacity for evidence-based lobbying of the government.

**Future involvement**

The focus in DFID Yemen has moved to Public Financial Management so there is little momentum to follow up on PSIA recommendations.

Based on the positive experience of collaboration on this PSIA, it was recommended that DFID Yemen should continue to work closely with the World Bank on mitigation measures.

## Annex 4: PAM Team Support on PSIA Related Work for Country Desks and Others

<b>PAM TEAM SUPPORT ON PSIA RELATED WORK FOR COUNTRY DESKS AND OTHERS</b>		
<b>Country and PSIA</b>	<b>Date</b>	<b>Support provided by PAM Team</b>
<b>Africa</b>		
Kenya – Trade Liberalization	Mch-Apr 04	Comments and input to TOR and comments on links of the PSIA to IMF policies.
Rwanda – Pilot Fiscal	May-Jun 04	Discussions on lessons learnt from the pilot PSIA.
Tanzania – PSIA process	Apr 04	Comments on PSIA process, on attempts to link with macro-planning, and on links to the IMF. Comparison with experience of PSIAs in Pakistan.
Tanzania – Privatisation of Crop Board	July 04	Comments on the first draft of PSIA study, requested by the DFID Poverty Advisor. The conclusion was reached that this exercise could not be defined as a PSIA.
Ghana – linking PSIA and Environment	Jul 04 -	DFID PD initiated a discussion with the Ghana office and Environmental team concerning the suggestion by the Government of Ghana to integrate PSIA and SEA in order to avoid consultative fatigue. The possibility of a meeting to consider this suggestion in November 2005 in Ghana is under discussion.
Kenya and South Africa, impact of Social Business Codes of Contact	Aug 04	DFID PD staff met with the PSIA consultants. Lessons from this during-implementation-type PSIA (on cut flowers in Kenya and on wine in South Africa) were used in the Source book.
Ghana, Uganda, Tanzania	Feb-May 05	Supporting CO staff with ideas, introductions to Bank and Fund staff and other consultants.
<b>Asia</b>		
Cambodia/SEA – Trade Liberalization, macro	May 04	Comparative work was used to provide assistance in the implementation of this PSIA links to macro-frameworks were identified. Advice was given on relations with the IMF.
Orissa (India) – Govt reform program, 2 <sup>nd</sup> PSIA	Apr-May 04	DFID PD provided input for the TOR and comments regarding the integration of M&E into the PSIA process.
Pakistan – PSIA selection process	Jul 04	Advice on the process of issue selection and presentation at a DFID-led workshop on PSIAs in Pakistan.
China (General)	Aug 04	Meeting with a DFID China staff member, to give an overview of the PAM team's work (with a particular focus on PSIA).
Indian infrastructure funding, Japan- JICA, Consultants for PAMS of impact	Aug 04 – Nov 04	Suggestions of potential India-based consultants. Discussion of how PAMS relate to PSIA and of the benefits of wider analysis of impacts of infrastructure projects. Meeting with Japanese officials to discuss options for study, also attended by DFID India.
Russia – role of PSIA for changes in social protection	Aug 04	Comments to the Russian Desk on the role of PSIA in MICs to inform IMF Article IV consultations, and recommendations for government leadership in this work.
Pakistan	Sept 04 -	Comments on TOR and on how to structure the PSIA Steering Committee. Support given to the Pakistan desk in developing TOR for the micro-finance PSIA. Links were suggested with IFAD work on micro-finance.
Indonesia	Sept 04 -	Advice to PD-Forestry on drafting TOR for a PSIA on forestry management/protection. Follow up comments are anticipated at a later stage.
Iraq	Jan 05-	Detailed suggestions, comments and discussions on the TOR and strategy for PSIA of fuel subsidy, and initial ideas for food subsidy PSIA and PSIA related to reform of state owned enterprises.
<b>EMAD</b>		
Latin America: PSIA related experience	Apr-May 04	Comments on the fiscal reform PSIA, advice on relations with the IMF and Bank, and information sharing on developments in PSIA thinking.
Bosnia (BiH)	July 04 -	Extensive comments made to the Bosnia desk on TOR for WB PSIA. A meeting has been planned with the World Bank

		consultant in the near future. Ongoing support will be provided to the Bosnia desk.
Bosnia (BiH)	Oct 04	Meeting with a PSIA consultant and with the Social Development Advisor to discuss the Save the Children PSIA proposal which DFID plans to support. Comments given and contact on-going.
Peru – Tax reform	May 04	Short comments given.
Yemen – Diesel Subsidy	July-Nov 04	Support given to the London Yemen desk and email/phone conversations with DFID Yemen and the GoY. Assistance in redrafting the initial TOR and recommendations for PSIA consultants. During a 10 day visit to Yemen, meetings were held with consultants and links established with the World Bank team. Follow up discussions were held at subsequent stages. DFID PD contributed to the DOC report on Yemen.
Nicaragua – PSIA training	Aug 04 -	Support was provided to EMAD for PSIA regional training. A follow-up meeting is due in November 2005.
Nicaragua – Competitive policy	Oct 04 -	DFID PD initiated discussions with the Nicaragua desk on options for encouraging Bank's SEA and PSIA analyses of this loan to be better integrated in order to avoid duplication of consultations.
Nicaragua – PSIA training	Nov 04	Nicaraguan DFID colleagues and government participants took part in the Honduras workshop, also attended by a member of the DFID PAM team.
Honduras – PSIA on fuel price increase, CAFTA, minimum wage, and PSIA training	Autumn 04 Nov 04	Comments given on the TOR for the PSIA on fuel price increase, minimum wage, CAFTA (trade agreement) and the technical support provided by DFID. DFID PAM planned, co-organised and facilitated a training workshop on PSIA tools and methodologies, and provided technical input to PSIA meeting on fuel price increase.
Bolivia	May 04	Support to the DFID Bolivia: visit to the country office, meetings with the IMF and World Bank to uncover the extent of their PSIA work so far, including PSIA undertaken by the WB on pension reform. A report was written and circulated to LAD.
<b>Policy Division and Other Divisions</b>		
Trade Department	Jun 04 -	Supporting Trade Dept and DEFRA with comments on the methodological work on Trade-Sustainable Impact Analysis (T-SIA) by the EC. Attended review meetings in Brussels.
Environment for Sustainable Development	Aug 04 -	Discussion on the links between SEA and PSIA (also relevant to Ghana). Participation and input provided in a Vietnam Meeting held in Jan 05, and presentation of a paper on PSIA. Participation in a workshop on SEA Guidelines. DFID PAM has been identified as a key resource on the links between SEA and PSIA and on their links to PRS processes. DFID PAM has been invited to attend meetings in Ghana (in June 05) and in Prague on SEA/PSIA in Development Cooperation (in Sep 05).
Agricultural reform	Oct 04	Discussions initiated with the Agricultural team on the use of PSIA to inform the design of agricultural reform policies, taking note of the different requirements in African and Asia, and the lessons Africa can learn from Asia and Latin America.
Social Principles - Forest Governance and Trade Agreements	Nov 04	The PSIA of Voluntary agreements for management of forestry and timber resources was linked to EU trade agreements with various countries. DFID PD commented on TOR, and will probably be involved at the next stage of the PSIA process.
Environment Rights & Justice Team	Oct 04 Dec 04	Meeting on Rights and PSIA. Discussion on gender and PSIA.
HIV/AIDS Team	Apr 05 -	Start discussions on how to integrate HIV/AIDS issues into PSIA, and develop a supporting 'How to Note' to complement the TIPS.
Team responsible for DAC PovNet	Apr 05 -	Initiated links to gain understanding of the proposal to develop a guidance for Poverty Impact Analyse, to encourage harmonization with the existing work around PSIA.

## Annex 5: Summary Matrix of PSIAs to Date

Country	PSIA Issues	Sector	PSIA Status	Lead partner(s)	DFID Contact	WB Contact	Last Updated	Source
<b>Africa</b>								
<b>Benin</b>	1. Cotton Reform	Agriculture	Ongoing	World Bank		Maria Correia	May-03	World Bank
	2. Tariff Reform	Trade	In design	World Bank		Quentin Wodon	Feb-04	World Bank
<b>Burkina</b>	1. Growth Inequality linkages	Macro	Ongoing	World Bank		Jan Walliser	May-03	World Bank
	2. Cotton PSIA	Agriculture	Ongoing	World Bank		Jan walliser & Quentin Wodon	Feb-04	World Bank
	3. Tariff Reform	Trade	In design	World Bank		Quentin Wodon	Feb-04	World Bank
<b>Cameroon</b>	1. Overall pub exp program	Macro	Ongoing	World Bank		Florence Charlier	May-03	World Bank
	2. Tariff Reform	Trade	In design	World Bank		Quentin Wodon	Feb-04	World Bank
<b>Chad</b>	1. Cotton Reform	Agriculture	Ongoing	World Bank		Christine Richaud	May-03	World Bank
<b>Congo, DR</b>	1. Public sector reform for basic service provision	Public Sector	Ongoing	World Bank	Katja Jobes	Helene Grandvoinnet	May-03	World Bank
	2. PSIA of Mining Sector	Industry	Ongoing	World Bank	k-jobes@dfid.gov.uk	Sarah Keener	May-03	World Bank
<b>Côte d'Ivoire</b>	1. Pub Expenditure Prioritization	Macro	Ongoing	World Bank		Zeljko Bogetic	May-03	World Bank
<b>Ethiopia</b>	1. Pub Expenditure Prioritization	Macro	Ongoing	World Bank	Claudia Fumo	Karim El Aynaoui	May-03	World Bank
	2. Road Construction Impact	Infrastructure	In design	World Bank	c-fumo@dfid.gov.uk		May-03	World Bank
	3. Tax Policy and Administration reform	Macro	ongoing	DFID and IMF	In design	IMF and DFID		PAM

	4. Falling Commodity Prices and Civil Service Reform	Macro	ongoing	DFID			Oct-04	World Bank
<b>Ghana</b>	1. Utility pricing and subsidies.	Utility	Ongoing	Govt, Bank	Kirsty Mason	Sarah Keener	May-03	World Bank
	2. Land reform	Land	Ongoing		Kirsty-mason@dfid.gov.uk		May-03	World Bank
	3. Decentralization	Decentralisation	Ongoing	KfW			May-03	World Bank
	4. Energy Sector Reform	Macro	In design				May-03	World Bank
	5. Petroleum pricing & the poor	Fuel	In design	UNDP				PAM
	6. Tackling vulnerability and exclusion	Social	In design	DFID				PAM
	7. Modernization of agriculture & the poor	Agriculture		DFID			Oct-04	World bank
	8. PSIA workshop		Complete	DFID			Oct-04	World Bank
<b>Kenya</b>	1. Trade Liberalization	Trade	Dropped	DFID, IMF	p-poulsen@dfid.gov.uk		Nov-04	World Bank
<b>Lesotho</b>	1. Electricity Sector Reform	Utility	Ongoing	World Bank		Dileep wagle	May-03	World Bank
<b>Madagascar</b>	1. Trade (rice tariffs)	Trade	Ongoing		No programme	Wolfgang Fengler	May-03	World Bank
	2. Agricultural reform (fertilizer subsidy)	Agriculture	Ongoing				May-03	World Bank
	3. Agricultural reforms	Agriculture	Ongoing	World Bank			Oct-04	World Bank
	4. Institutional analysis of service delivery	Public Sector	Complete			Sarah Keener	Feb-04	World Bank
<b>Malawi</b>	1. Agriculture market closures	Agriculture	Completed	Bank and GTZ	Peter Evans	Antonio Nuciforaanucifora@worldbank.org	May-03	World Bank
	2. Education (impact of pub exp dist')	Social	Completed		Peter-evans@dfid.gov.uk	Hassan Zaman	May-03	World Bank

	3. Tobacco Marketing Reform	Agriculture	Ongoing			Sudhir Chitale & Antonio Nucifora	May-03	World Bank
<b>Mali</b>	1. Cotton Sector Reform	Agriculture	Ongoing			Naima Hasci nhasci@worldbank.org	May-03	World Bank
<b>Mauritania</b>	1. Water	Utility	Ongoing	GoM	No programme - WB contacts incl S Keener	Hawa Wague-Cissehwaguecisse@worldbank.org	Jul-04	World Bank (TTL)
	2. Mining Services Reform	Industry	Ongoing	Bank		Sarah Keener	May-03	World Bank
	3. Health and Education Incidence Analysis	Social	Completed	GoM			May-03	World Bank
	4. Energy - privatisation of national electricity company	Utility			In discussion	GoM with World Bank	Feb-04	World Bank
<b>Mozambique</b>	1. Petroleum tax increase	Fuel	Complete	DFID pilot	Simon VandenBroeke		May-03	World Bank
	2. Land lease legislation	Land			s-vandenbroeke@dfid.gov.uk		May-03	World Bank
	3. Primary school fees reduction	Social	Ongoing		Alicia Herbert		Feb-04	World Bank
<b>Niger</b>	1. Energy Sector Privatisation	Utility	Ongoing			E.M. Pinto & Quentin Wodon	May-03	World Bank
<b>Rwanda</b>	1. Exp objectives and fiscal target.	Macro	Complete	DFID and Govt	Simon Stevens	John MacKinnon (OPM Consultant)	May-03	World Bank
	2. Tea sector privatisation	Agriculture	Ongoing		s-stevens@dfid.gov.uk	Kene Ezemenari	May-03	World Bank
	3. Fertiliser policy	Agriculture	Ongoing			Quentin Wodon	Feb-04	World Bank
<b>Senegal</b>	1. Groundnut sector liberalization	Agriculture	Ongoing	IMF		Quentin Wodon qwodon@worldbank.org	May-03	World Bank
	2. Groundnut Sector Liberisation -II	Agriculture	In design	World Bank		Quentin Wodon qwodon@worldbank.	Feb-04	World Bank

						org		
	3. Tariff reform	Trade	In design			Quentin Wodon qwodon@worldbank.org	Feb-04	World Bank
<b>Tanzania</b>	1. Reform of Crop Boards	Agriculture	In design		Gerard Howe	Robert Townsend & Maria Corriea	May-03	World Bank
	2. Trade liberalisation	Trade	stalled	IMF			Mar-05	PAM
<b>Uganda</b>	1. Export promotion	Trade	Completed	DFID Pilot	Jenny Yates		May-03	World Bank
	2. Land Act analysis	Land	Ongoing		j-yates@dfid.gov.uk	Sudarshan Canagarajah	May-03	World Bank
	3. Privatising urban water sector / water tariffs	Utility		Ongoing			Feb-04	World Bank
	4. Common ext tariffs in E Africa	Trade	In Design				Feb-04	World Bank
<b>Zambia</b>	1. Land reform/titling	Land	Ongoing			Abebe Adugna	May-03	World Bank
	2. Removal/reduction of fertilizer subsidy	Agriculture	Ongoing				May-03	World Bank
	3. Delivery of rural infrastructure	Infrastructure	Ongoing			Abebe Adugna	May-03	World Bank
<b>East Asia and Pacific</b>								
<b>Cambodia</b>	1. Rice tariffs	Trade	Completed	Bank	Matt Butler	Goletti	May-03	World Bank
	2. Social Concessions of Land Reform	Land	Ongoing	Bank - with Oxfam	m-butler@dfid.gov.uk	Wael Zakout	May-03	World Bank
<b>Indonesia</b>	1. Rice tariff	Trade	Completed	DFID Pilot, with Bank	Donata Garrasi	Jehan Arulpragasam	May-03	World Bank
	2. Macro reforms	Macro	Ongoing		d-garrasi@dfid.gov.uk	Jehan Arulpragasam	May-03	World Bank
	3. Social protection Reform	Social	Ongoing			Jehan Arulpragasam	May-03	World Bank

<b>Lao PDR</b>	1. Public Exp and Rev Management and increase in utility tariffs	Utility	Ongoing			Allsesandro Magnoli & Kasper Richter	May-03	World Bank
<b>Mongolia</b>	1. Cashmere tariffs	Trade	Ongoing			Vera Songwe/B Bidani EASPR S. Rivera EASEG	May-03	World Bank
	2. Rice tariffs	Trade	Completed				May-03	World Bank
	3. Energy Sector Reform	Utility	In design			Benu Bidani & Arturo Rivera	May-03	World Bank
<b>Vietnam</b>	1. Labour market impact of state owned enterprise reform	Public Sector	Completed follow up monitoring ongoing		Thien Huong tt-huong@dfid.gov.uk , and Carrie Turk on secondment to the Bank cturk@worldbank.org	Martin Rama & Carolyn Turk	May-03	World Bank
	2. Trade (rice tariffs, WTO accession)	Trade	Ongoing			Martin Rama EASPR	May-03	World Bank
	3. Property rights	Public Sector	In design					PAM
	4. More efficient VAT collection	Public Sector	In design					PAM
<b>Europe and Central Asia</b>								
<b>Albania</b>	1. Energy tariffs	Utility	Completed			Kathryn Funk	May-03	World Bank
	2. Pensions reform.	Public Sector	Ongoing			Kathryn Funk	May-03	World Bank
	3. Education Reform	Social	Ongoing			Halil Dundar & Calogero Carletto	May-03	World Bank
	4. Decentralization of Water Privatisation	Utility	Ongoing			Andreas Rohde	May-03	World Bank
	5. Irrigation and drainage reform	Agriculture	Ongoing				May-03	World Bank

<b>Armenia</b>	1. Utility (water)	Utility	Completed, revision completed in Feb 2004	DFID Pilot	Sam Yates S-Yates@dfid.gov.uk		May-03	World Bank
<b>Azerbaijan</b>	1. Utility pricing	Utility	Completed		Sam Yates	Julian Lapietti ECSSD	Mar-05	World Bank
	2. Public employment reform	Public Sector	Ongoing		S-Yates@dfid.gov.uk	Arvo Kuddo	May-03	World Bank
<b>Georgia</b>	1. Utilities (water, gas & electricity tariff increases)	Utility	Completed		Tamsin Ayliffet-ayliffe@dfid.gov.uk	Julian Lampietti	Mar-05	World Bank
<b>Kyrgyz Republic</b>	1. Electricity reform	Utility	Completed		Tamsin Ayliffet-ayliffe@dfid.gov.uk	Julian Lampietti	Mar-05	World Bank
<b>Moldova</b>	1. Energy Sector Reform	Utility	Completed		Tamsin Ayliffet-ayliffe@dfid.gov.uk	Julian Lampietti	Mar-05	World Bank
<b>Romania</b>	1. Mining Reform	Industry	In design	World Bank			Oct-03	World Bank
<b>Russian Federation</b>	1. Housing and Communal Services Reform	Housing	In design		Jill Fletcher j-fletcher@dfid.gov.uk	Mansoor Rashid/ Peter Ellis	May-03	World Bank
<b>Tajikistan</b>	1. Energy Tariff Reform	Utility	Ongoing (preliminary assessment complete)	DFID financing	Sam Yates	J. von Weizacker	Mar-05	World Bank
	2. Cotton farmland Privatisation	Land	Completed		S-Yates@dfid.gov.uk	Jakob Weizacker	Mar-05	World Bank
	3. Micro and small enterprise finance facility	Private enterprise	Completed	DFID financing and led	Jill Fletcher j-fletcher@dfid.gov.uk			PAM
<b>Turkey</b>	1. Labour market reform	Public Sector	Ongoing			Samuel Otoo	May-03	World Bank

	2. Public sector reform	Public Sector	Ongoing			John Innes	May-03	World Bank
	3. Social Security Reform	Social	Ongoing			John Innes	May-03	World Bank
	4. Energy Pricing	Utility	Ongoing			John Innes	May-03	World Bank
<b>Ukraine</b>	1. Energy Sector Impact	Utility	Ongoing (completion due at end of 2004)			Carolyn Gochenour	Jul-04	World Bank (TTL)
<b>Latin America and the Caribbean</b>								
<b>Argentina</b>	1. Utility tariff reform	Utility	Ongoing			Vivien Foster	Feb 2004	World Bank
	2. Macroeconomic Crisis - 5 Areas of PRGF	Macro	Complete	World Bank			Oct-04	World Bank
<b>Bolivia</b>	1. Pensions	Public Sector	Ongoing	GoB and WB			May-04	PAM
	2. Teachers Salaries	Public Sector	Ongoing	GoB and WB	Oscar Antezana		May-04	PAM
	3. Social Expenditure	Social	Ongoing	GoB and WB	o-antezana@dfid.gov.uk		May-04	PAM
	4. Subsidies on Gasoline and LPG (liquefied petroleum gas)	Utility	Ongoing	GOB and WB			May-04	PAM
<b>Bolivia</b>	1. fuel prices FY04/05	Utility	Ongoing	GoB and	Oscar Antezana	John Newman	May-03	World Bank
	2. LPG subsidies FY04/05	Fuel	Ongoing	GoB and	o-antezana@dfid.gov.uk	John Newman	May-03	World Bank
	3. Income tax FY04/05	Macro	Ongoing	GoB and		John Newman	May-03	World Bank
	4. Labour reform FY05/06	Public Sector	Ongoing	GoB and		John Newman	May-03	World Bank
	5. Corporate sector restructuring FY05/06		Ongoing	GoB and		John Newman	May-03	World Bank

<b>Columbia</b>	1. Utilities (part of REDI exercise)	Utility	Green Cover	WB and GoC			Jul-04	World Bank (TTL)
<b>Dominica</b>	1. Public Sector Reform	Public Sector	Ongoing			Camille Nuamah	May-03	World Bank
<b>Dominican Republic</b>	1. Electricity sector reform	Utility	Initiating	WB and GoDR		vfoster@worldbank.org	Jul-03	World Bank (TTL)
<b>Guyana</b>	1. Utility reform (water)	Utility	Completed			Norman hicks	May-03	World Bank
	2. Bauxite reforms (LSMS of bauxite area)	Industry	Ongoing			Norman Hicks	May-03	World Bank
	3. Sugar reforms (LSMS of sugar area)	Agriculture	Ongoing			Norman Hicks	May-03	World Bank
<b>Honduras</b>	1. Electricity privatisation.	Utility	Complete	DFID Pilot	Vic Heard	Andy Mason	May-03	World Bank
	2. Fiscal analysis	Macro	Ongoing (completion due feb 05)	WB, DFID	v-heard@dfid.gov.uk	Florencia Castro-Leal		PAM
	3. CAFTA	Trade	Ongoing			Florencia Castro-Leal	May-03	World Bank
	4. Fuel pricing reform	Utility	Ongoing	DFID		Jorge Monge	Mar-05	
	5. Civil service Reform	Public Sector	Ongoing			Florencia Castro-leal	May-03	World Bank
<b>Nicaragua</b>	1. Fiscal reform	Macro	Ongoing		Georgia Taylor		May-03	World Bank
	2. CAFTA	Trade	Ongoing		g-taylor@dfid.gov.uk	Florencia Castro-Leal	May-03	World Bank
	3. Education For All	Social	Ongoing			Florenica Castro-Leal	May-03	World Bank
	4. Public Sector Management Reform	Public Sector	Ongoing			Florencia Castro-Leal	May-03	World Bank
<b>Paraguay</b>	1. Water Sector reform under WB project	Utility	Complete but reform abandoned	WB and GoP		vfoster@worldbank.org	Jul-04	World Bank (TTL)
<b>South Asia</b>								

<b>Bangladesh</b>	1. SOE Reform/Social Protection	Social	Ongoing - plus follow up		Mehtab Currey	David Marsden	May-03	World Bank
	2. Corruption and incentives		In design	In design			m-currey@dfid.gov.uk	PAM
<b>India</b>	1. State PRS Strategy (fiscal and structural reforms) in Orissa	Macro	Completed and follow up on going	DFID pilot	Darran NewmanD-newman@dfid.gov.uk	vfoster@worldbank.org		PAM
	2. Electricity reform and the poor	Utility	Complete	WB ESW			Jul-04	World Bank (TTL)
	3. Water Tariffs and subsidies	Utility	Complete	WB ESW			Jul-04	World Bank (TTL)
<b>Nepal</b>	1. Increase in kerosene prices	Fuel	Ongoing - Stalled		Stephen Sharples s-sharples@dfid.gov.uk	Hassan Zaman	May-03	World Bank
	2. Accession to the WTO		Stalled				Mar-05	World Bank
<b>Pakistan</b>	1. Utility (energy reform)	Utility	Abandoned		Jennifer Leithj-leith@dfid.gov.uk	Rashid Aziz	May-03	World Bank
<b>Sri Lanka</b>	1. BIA of health exp	Social	Ongoing		Matt Butler m-butler@dfid.gov.uk	Michele Gragnolati	May-03	World Bank
	2. Welfare reform - cash transfer scheme		Ongoing				Feb-04	World Bank
	3. Labour reform		Ongoing				Feb-04	World Bank
	4. Electricity privatisation		Ongoing				Feb-04	World Bank

Middle East and North Africa								
<b>Djibouti</b>	1. Energy Sector Reform		Ongoing	World Bank		Maskerem Brhane	May-03	World Bank
<b>Iran</b>	1. Water and Sanitation Reform		Ongoing		No Programme	Meskerem Brhane	May-03	World Bank
<b>Yemen</b>	1. Energy Sector reform		Ongoing	DFID	<a href="mailto:Susan.Roberts@dfid.gov.uk">Susan Roberts Sc- Roberts@dfid.gov.uk</a>	Meskerem Brhane	May-03	World Bank
	2. Diesel Subsidy		Due For Completion Oct 04	DFID	<a href="mailto:Freddy.Bob-Jones@dfid.gov.uk">Freddy Bob-Jones F- Bobjones@dfid.gov.uk</a>	<a href="mailto:Kierankosullivan@worldbank.org">Kierankosullivan@worldbank.org</a>	Oct-04	DFID

## Annex 6: Draft UK Government Policy on use of Poverty Social Impact Analysis (PSIA): A discussion paper

1. The UK Government is committed to the principle that the development of appropriate policies should be based on the best available evidence and analysis. The UK Government also encourages the adoption of this principle by development partners both among donors and recipients.

2. The impact of policies, on poverty and the distribution of income and welfare of various groups, is of particular concern for attaining the Millennium Development Goals (MDG). The UK Government advocates increased use of analysis, such as Poverty Social Impact Analysis (PSIA) (see Box 1) to inform the debate, formulation and choice of policies in developing countries. PSIA that follows recognised good practice (see Box 2) has the potential for promoting policy-making that is more inclusive, pro-poor and evidence based.

### Box 1: What is PSIA and why can it help?

*PSIA is an approach to impact analysis that informs policy formulation and choice, rather than being any specific tool or method. It draws on a host of different tools from many disciplines depending on what is appropriate. PSIA analyses the intended and unintended consequences of policy interventions on the well-being of different social groups, with a focus on poor and vulnerable people. This includes both the income and non-income dimensions of poverty.*

PSIA is starting to improve the understanding of policy impacts on poor and vulnerable people, and to be used to inform the formulation of reform programmes, as well as guiding efforts to mitigate negative impacts e.g:

- in Uganda, PSIA helped to clarify the respective efforts of agricultural development and export promotion on men and women. Men benefit the most since they controlled land used for market production, while women control land for home food production. This knowledge is helping to inform more gender sensitive agricultural policy.
- in Malawi, it was agreed that the existing state-run marketing boards were neither effective nor sustainable. Privatisation was suggested as a solution. However, the PSIA brought out the social role of the boards – purchasing and providing food stocks in remote areas that are not viable for the private sector. It is now understood that these functions need to be addressed, before full privatisation takes place. This is a break with the World Bank's traditional view of state marketing boards.
- in Ghana, PSIA showed that the strategy being pursued to modernise agriculture only has sporadic benefits for poor people. Debate has now started on what would be more effective policies. The IMF has also agreed to a modified proposal for the removal of subsidies on fuel prices, which is being informed by the results of PSIA work.

3. Donors and international financial institutions, in particular the International Monetary Fund (IMF) and the World Bank, often use policy conditions linked to the assistance they provide. A broad understanding of the impact of these policies is essential if they are to be formulated in a manner that ensures they support effective poverty reduction. The IMF and World Bank have been reviewing the nature and extent of their use of conditionality. The IMF has already made significant progress through their 'streamlining conditionality' initiative. The World Bank has also moved to reduce its conditionality, and is undertaking a formal review of its policy. Both institutions have made a commitment to take account of any significant distributional consequences of

the policy advice they offer and any conditions they set, and have acknowledged the role that PSIA can play in informing concerned parties of possible consequences. In the application of PSIA, the World Bank has progressed much further than the IMF, having undertaken over 100 PSIAs over the last two years. The IMF has more recently established a PSIA Group, which is starting to integrate PSIA into the work of their country teams.

4. For the Bank, this commitment has been institutionalised under operational policy (OP8.60). This expects programme documents for development policy support operations to specify which policies supported by the operation may have significant distributional consequences. Programme documents will summarise the analytical knowledge and the borrower's systems to deal with impacts. If PSIA is considered important

for policy reform supported by a specific lending operations, then either:

- analysis will be conducted by the Bank or other partners before the operation goes to the Board; or
- the operation proceeds to the Board with an action plan for undertaking the PSIA.

5. While progress is being made, much more remains to be done to increase the number and improve the quality of PSIA, to promote its ownership by partner governments and ensure that the results of the PSIA are used effectively in the policy process. It is also necessary to recognise the dynamic tension that exists between the requirement for 'due-diligence-PSIAs' and 'country-led-PSIA'. Governments and NGOs have been demanding that the IMF and World Bank undertake due diligence PSIAs to ensure that the policies they recommend and conditions they impose take account of any significant distributional consequences. On the other hand, there is increasing recognition that PSIAs should be initiated and led by recipient countries as recognised in the good principles of PSIA.

6. The UK Government recognises this same tension in its own programmes of assistance, having used conditionality, either in its direct agreements with partner governments, or by tracking the agreements of others containing their own conditions. The recent UK Government policy paper "Partnership for poverty reduction: rethinking conditionality", states that we will not make aid conditional on specific policy decisions by partner governments, nor attempt to impose policy choices on them – although our agreements will contain agreed "benchmarks" against which progress can be measured. Circumstances under which a failure to fulfil conditions would lead to a reduction in aid will be limited to issues of commitment to poverty reduction, respect for human rights and misuse of funds (see Box 3).

**Box 2: Principles to Guide Good Practice**

**PSIA should:**

8. play a central role in the policy process:
  - at the start (to inform policy choice)
  - during (to improve monitoring)
  - at the end (for lesson learning).
9. utilise a multi-dimensional and disaggregated view of poverty based on qualitative and quantitative information from a range of disciplines.
10. be country-owned and led.
11. *facilitate broad stakeholder engagement.*
12. aim to foster greater transparency and accountability.
13. be part of national processes and support capacity development.
14. be pragmatic and appropriate to purpose.

7. This new paper on conditionality signals a significant reduction in the relevance of the 'due diligence' issue for UK assistance, particularly when our assistance directly supports the national budget in which expenditure is determined by the national authorities. However, there may be cases where a due diligence reason for PSIA may remain. Some of the benchmarks agreed in a programme may explicitly contain significant distributional consequences. Even if these benchmarks represent the independently chosen policy of the recipient government, it may be desirable to improve the understanding of the policy's distributional impacts. There may still be occasions where other donors in a jointly funded programme may be imposing conditions.

**Box 3: When will UK consider reducing or interrupting aid**

The circumstances in which the UK will consider reducing or interrupting aid are if:

- (a) countries move significantly away from poverty reduction objectives or outcomes or the agreed objectives of a particular aid commitment (e.g. through an unjustifiable rise in military spending, or a substantial deviation from the agreed poverty reduction programme); or
- (b) countries are in significant violation of human rights or other international obligations; or
- (c) there is a significant breakdown in partner government financial management and accountability, leading to the risk of funds being misused through weak administration or

8. Given the move to basing funding decision on an overall assessment of a government's commitment to poverty reduction, rather than conditioning disbursements on specific policy actions, combined with the types of funding instruments we use, it will be difficult to make explicit commitment to PSIA that will cover all the possible arrangements. The UK Government's guiding principle is to making PSIA type analysis an integral part of our pro-poor, transparent and evidence based development support, wherever significant distributional consequences – particularly those having negative effects on poor and vulnerable people – are likely. In particular, the UK Government is committed to:

- (a) the UK being a leader in the development and application of internationally recognised good practice in the use of PSIA.
- (b) continuing to encourage and support the efforts of the IMF and World Bank, and other development organizations, to ensure that consideration of significant distributional consequences is incorporated into their programmes – especially where conditions are imposed on this assistance – and that, when these consequences are likely to be significant, the necessary analysis, such as PSIA, is undertaken.
- (c) within our programmes of assistance, to provide our partner governments with funding that supports the development of capacity to undertake PSIA within the framework of improved policy making systems.
- (d) meeting the cost of undertaking appropriate PSIA, to inform the policy formulation and necessary mitigations, of any UK funded programme, if all of the following apply:
  - the assistance is linked to any policy conditions or benchmarks, whether or not there is co-financing with others; and

- the policy conditions or benchmarks are likely to have significant distributional consequences that hurt poor people; and
- PSIA, or other appropriate analysis, has not already been undertaken or planned.