

Learning the Lessons on PSIA - A Synthesis of Experience from the DFID Pilot Studies

Table of Contents

The 2 Minute Version	2
What is the PSIA? Getting Behind the Acronym	2
Another Initiative, Another Set of Pilot Studies?	3
Setting the Scene: Key Players in the Pilots	3
How to do PSIA - Lessons on Process	4
How to do PSIA - Lessons on Methods and Tools	5
What did the PSIA Pilots Achieve? Influence and Impact	6
Moving Beyond the Pilot Stage	7
EndNotes	7
Annex I: Summary of DFID Pilot PSIAs	8

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Previous Briefing Notes include: A review of Growth Strategies in a selection of African PRSPs, Costings in PRSPs, Reporting and Monitoring in a post-full PRSP world, A Comparison of PRSCs in Vietnam and Uganda.

The 2 Minute Version

Much can be done with existing resources... the pilots demonstrated the usefulness of doing some analysis, even with limited data, limited capacity and a rushed process.

Lessons

■ Process

■ **Build country ownership through wide consultation** with key stakeholders at all key points- process matters as much as quality of analysis as this increases the credibility of the analysis and its use.

■ **Align PSIA with the PRS (or other) cycle.** Even with constrained time and imperfect data sets, useful insights can be made but are more likely to be acted on if provided at the relevant moment.

Lessons

■ Methods

■ **Robust and independent analysis** increases the influence of PSIA. Although PSIA seems to clarify assumptions and improve the quality of debate, rather than to provide clear policy recommendations.

■ The most **useful PSIA**s had **social and economic inputs carefully sequenced** with agreement on key assumptions and research questions.

■ **A streamlined and focused study increases its user friendliness.** Whatever the technical complexity - a clear and brief executive summary means people will read it!

Challenges

■ **However, identifying the scope of PSIA is tricky** – broader studies may become confusing, narrow studies may be criticised for not taking into account all issues.

■ **Identifying the key livelihood groups, intra-household and producer responses are difficult**, as standard household surveys do not cover these. Also information specific to the PSIA reform was often scarce. The pilots drew on other studies or used quick assessments to cover these issues.

■ **PSIA can identify how to strengthen institutions and national information systems**, but this relies on political buy in. It is important that in identifying data weaknesses, parallel systems for PSIA are not set up. Rather national information systems should be strengthened.

■ **Ideally, poverty analysis would be an integral part of national decision making processes.** This will take time and there will still be need for stand alone PSIA, as a way of raising the profile of these issues in policy debates.

What is PSIA? Getting behind the acronym

Poverty and Social Impact Analysis (PSIA) aims to improve policy formation in low-income countries and is hailed as a key element both of national PRS processes, and in the design of IMF and World Bank lending programmes. PSIA is an approach **for assessing the effects of policy change on the well being of different groups in society.** The focus is primarily on poor groups, but not exclusively; in some cases it is the (politically influential) non-poor that lose out most from a change in policy.

PSIA is not new, but has yet to be applied systematically, in particular during the early stages of policy development.

PSIA performs several roles in improving policy formation:

- Making the assumptions about all linkages between poverty and reform decisions as clear and explicit as possible;
- Ensuring that policies are not judged solely on long-term aggregate economic efficiency grounds; and

- Improving the quality of debate over reforms, opening up an avenue for negotiation between different stakeholders, and in particular between (and within) government, civil society and donors.

Another initiative, another set of pilot studies?

DFID (UK) and the Joint Implementation Committee of the World Bank and IMF undertook pilot PSIA in twelve countries, under two separate initiatives, and presented the results in a joint conference in Autumn, 2002. DFID studies were conducted in Rwanda, Mozambique, Indonesia, Armenia, Uganda and Honduras (and a desk review PSIA in Orissa, India). **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.¹ Annex 1 summarises DFID Pilot studies.

Uniquely, the DFID terms of reference specified

- Combining international and local consultants
- Combining economic and social expertise
- Doing PSIA in “real policy time” (40 days consultancy time)
- Government was envisaged as the primary client for the PSIA results
- A government unit was identified to work in partnership with DFID on the PSIA piloting exercise, typically the PRSP-responsible unit in Ministries of Finance.

The choice of policy and methodology used by the researchers was determined in a scoping mission that involved as broad consultation as possible in the time available.

Box 1: Is the PSIA ‘label’ helpful?

PSIA is now part of the development lexicon, but is the label helpful? A recent panel discussion about the DFID Pilots raised several misgivings:

- Will a ‘PSIA’ label lead to it becoming a separate product? Shouldn’t we be pushing for PSIA-type principles to be an integral part of good practice in policy decisions?
- Is PSIA creating an elitist language or ‘school’ all of its own?
- Is the language of ‘impact analysis’ emphasising drawbacks? What about empowerment and opportunity and opening up national debate?
- Will this lead to other analysis that is PSIA “in all but name” being disregarded?

Setting the scene: Key players in the pilots

The pilot PSIAs experienced relatively little tension in the actual conduct of PSIAs and there were no cases of attempts to manipulate the results. There were some strained relationships, and cases where some stakeholders were reluctant to accept or publicise findings. However, these were demonstration exercises, and subsequent experience of PSIA has shown that the slightly different way in which government, IFIs and NGOs use PSIA can create some tension in processes for prioritising and conducting analysis. Recently in Ghana and Uganda, PSIA workshops have established priorities and set up steering committees that show a way

forward, although even in these consultative processes agreeing priorities can be time consuming.

With respect to the pilots, most Governments had an interest in PSIA, **to either fine tune reforms to maximise their poverty reducing impact or as a tool to strengthen the Government's negotiating position with the IFIs**. In Rwanda, national authorities expressed an interest in using PSIA to negotiate with the IMF over budget choices. In Indonesia, stakeholders within and outside government saw PSIA more as injecting new ideas and opening up debate on long-standing differences of opinion on rice tariff policy. In Mozambique, PSIA was seen as a good way to shift the power asymmetry with the IFIs and increase transparency in the policy process.

The World Bank and IMF are increasingly concerned to **make sure that their activities are reducing poverty** and both now have a formal requirement to ensure that some form of PSIA is undertaken on reforms that are included in their lending agreements. PSIA for them can be used to persuade governments of the benefits of reforms. The WB is conducting a large number of PSIAs currently. The IFI pilots were undertaken with a similar set of operating principles to DFID's pilots, but had less emphasis on producing fast results with existing data or on involving local consultants. This sometimes meant that IFIs had concerns about the limitations of analysis undertaken in DFID pilots.

Finally, Northern NGOs expressed a strong interest in PSIA, as a means of empowering civil society (in particular vulnerable groups') voice in policymaking, and as a way of pressurising the IMF or World Bank to examine the distributional impacts of their lending programme requirements. However there was little involvement of Southern NGOs in the pilots (in Indonesia, some NGOs attended the one-day workshop), probably due to time constraints.

Bilaterals: DFID had a constructive relationship with the IFIs and chose pilots in countries based on demand articulated via DFID country offices. A Norwegian trust fund financed the IFI pilots. Since the pilots, other bilaterals, in particular, Germany, The Netherlands, and Japan have financed PSIA studies.

How to do PSIA - Lessons on Process

Build Country Ownership... The DFID pilots specified the use of national researchers and involvement of a partner government department in order to engage nationally. However, they were very time-bound, and although ownership was quite high at the time, the degree of follow-up has been mixed, and there was no time for capacity building other than the demonstration effect.

...by consulting widely: All pilots were preceded by a scoping mission, where researchers consulted key stakeholders to choose the policy based on various criteria, including national interest (Rwanda), concern about impact of an already agreed policy (Armenia, Honduras) and interest in new data or methods (Indonesia, Mozambique, Uganda). In some cases policies were rejected because they were considered too controversial. This process was deemed successful, if a little rushed. Researchers concluded that the decision about when to conduct a PSIA must be based on **broad consultation with relevant stakeholders**, including relevant parts of Government, donors (the IFIs and potentially other bilateral donors in a budget support setting) and civil society, if it is to be seen as legitimate and relevant. This should extend to decisions on how to conduct the PSIA, since the credibility of the results depends on agreement about whether the methods adopted are suitable, especially on the balance between technical and political analysis. To maximise its impact on informing policy debate the final document should be publicly shared and discussed, as with the stakeholder meetings in Indonesia.

Examples: In the **Rwanda** Pilot, the direct engagement of the Ministry of Finance (MoF) was critical in ensuring that Pilot study was taken seriously by the Government, although engagement with the IMF was less than optimal. In **Armenia**, the independent Economic Research Institute based in the Ministry of Finance meant that the findings of the PSIA could be quickly translated for policymakers who were in close contact with ERI. In **Honduras**, however, problems in getting government buy-in (combined with a sense that PSIA was an imposition from outside) resulted in an exercise that was largely divorced from the policy process and real time policy debate.

Produce a robust and independent piece of analysis. In **Armenia** it was essential that the ERI be independent even though it is located in the MoF. In **Indonesia**, researchers worked with the highly respected independent research institute SMERU. In **Rwanda** close collaboration with the MoF was a strength, but there were concerns that a key team member was an official of the Ministry of Finance and therefore not fully independent of the policy process. In **Mozambique**, there was less concern about using independent expertise, because of a tradition of independent appraisal. See below on content and scope of analysis.

But there are challenges...

How to strengthen Institutions? The pilot researchers were all asked to assess institutional capacity for conducting PSIA. They suggested a number of initiatives, including capacity strengthening within Ministries of Finance, university departments and policy think tanks. In Rwanda pursuing PSIA had the general effect of highlighting capacity weaknesses, while in Armenia, Government has indicated an interest in using PSIA to boost the quality of formal PRSP monitoring, evaluation and review. In Indonesia there was clearly strong capacity for analysis, but weaker linkages from research to policymaking. In many cases, **aligning PSIA with the formal PRSP cycle**, alongside the PRGF/PRSC cycle, **was seen as providing a critical opportunity** for everyone concerned to maximise the benefits of PSIA.

Complexity versus clarity – or country ownership versus credibility Defining the scope of the PSIA is a significant step. The best level of complexity for reports was determined more by readers than practitioners, since it is increasingly possible for local institutes to undertake more complex analysis. Experience of the Pilots suggests that a **crucial way to build local ownership is to produce focused and streamlined analysis**. The Uganda Pilot study was overloaded with too many questions so it was a challenge to **create a user-friendly product for policymakers**. But international readers frequently wanted more detail and more breadth in the studies, rather than less. Many were looking for outputs of academic quality rather than something compatible with levels of policy discussion in country. Also there was an expectation that PSIA's would be able to compare policy options. In these pilots it was concluded there was insufficient time, and that whilst this may be useful in the future, it would also increase the complexity of the analysis. Some of the final studies remained very long and complicated and benefited from a 6-page executive summary that was compiled later to bring out key issues using clear language.

How to do PSIA - Lessons on Methods and Tools

The Pilots were as much about testing methods as providing applied policy advice.

Cover the relevant livelihood groups. Five of the Pilots examined the links from policies to poverty by examining the impacts of changes to the price of goods or services on household consumption. However, they found that **conventional household survey data did not allow for a meaningful identification of vulnerable groups**. (See below paragraph on the limitations of household surveys.)

These pilots also examined direct impacts on the profitability of economic activities. The approaches varied from a subjective review of case studies to a complex economic model. The Pilots also suggest that **where some form of economic modelling is attempted, it is essential to relate this to more basic aggregate quantitative analysis**, so that

readers can be confident that it is soundly based and can understand clearly the added value from the extra sophistication. The Rwanda Pilot demonstrated the importance of being very explicit about the assumptions used in technical analysis, as this identifies the precise issues that are being controlled for. Once this had been done, more stakeholders felt able to enter the policy debate.

The experience of trying to assess longer-term production responses was rather disappointing, and may be beyond the scope of a rapid PSIA, given techniques available. For example, the CGE model used in the Indonesia Pilot was unable to analyse longer-term supply response or poverty impacts. Thus, **conclusions on policies affecting economic supply will have to rely more on subjective analysis**, which can identify issues but cannot be guaranteed to be representative.

Several of the studies were successful in identifying vulnerable groups that would be affected either as consumers or as producers. However they were not able to estimate the seriousness of the impact, and, **the challenge of ensuring that qualitative evidence was representative, rather than anecdotal, was not fully resolved.**

Combine economic and social methods and data Most studies concluded that this is essential for a successful PSIA. However, time constraints were a problem. For example the Indonesia, Mozambique and Honduras studies contained substantial quantitative analysis but lacked comprehensive qualitative analysis due to time constraints. On the other hand, subjective analysis is hard to aggregate and tends to be less convincing to policy makers. All teams were multidisciplinary, but in almost all cases references were made to **the importance of better sequencing between economic and social disciplines throughout the PSIA 'cycle'** (from identification and design to the eventual compilation of evidence).

Hence the need to share key assumptions and identify common research questions across the disciplines during a sufficiently long design phase (more than was available to the pilot researchers).

Make best use of available data, and contribute to strengthening national information systems. The quality of analysis is heavily dependent on adequate qualitative and quantitative data. Given the limited time and resources available for the studies, the pilots were only able to use existing data, supplemented in some cases by small scale, rapid case studies and surveys. For most pilots there was a range of existing studies and data, which could be drawn on, demonstrating that **it is usually possible to perform a basic PSIA using existing data and studies.** However, all the pilots were faced with data quality and availability problems, in particular:

- **Limitations of household survey data.** In most cases, countries had a household survey available, which provided background information notably on average consumption levels. But such data rarely provided enough detail to identify concentrated areas of 'impact' on different groups. Household survey data also provides limited information on relationships within the household. This is significant as the impact of many policies is likely to be dependant on within household relationships such as the division of labour

Box 2: Working in a multi-disciplinary way

The experience of the Pilots suggests that working in a multi-disciplinary way is not straightforward; but that when it works the benefits are considerable. Perhaps the most important lesson is that trying to get *integration* of economic and social disciplines is very difficult, and is not necessarily the objective. What seems to work better is an iterative or sequential approach in which key assumptions about the likely transmission effects of a policy change are exposed and agreement reached on the most important issues (or vulnerable groups) for more detailed analysis later on. The Uganda Pilot study found it useful to begin with a review of existing data and case studies, some rapid fieldwork, and thus built agreement across disciplines about the underlying model of change and critical research questions for the analysis. This made it possible to get the best out of all disciplines without expecting miracles in terms of disciplinary integration!

according to gender or age. Both the Uganda and Mozambique Pilots stressed these limitations, pointing to the importance of case studies and rapid surveys to shed light on intra-household issues. Work is being done on quantitative techniques to improve intrahousehold analysis, but, in the near future, this is likely to be dependent on more qualitative assessment.

- **Poor information about producer behaviour** This is a major weakness, given that so much public policy is aimed at encouraging economic growth, and that economic models are so limited in countries undergoing rapid structural change. Formal establishment surveys would be unlikely to resolve this, and some carefully structured customised survey of producers is likely to be central to many PSIAs in the future.
- **No existing information on areas specific to pilots.** To get more specific information, focus groups, surveys of asset holdings (as proxies for expenditure) or small customised field surveys were extremely useful, especially if undertaken by experienced researchers with a “feel” for the issues.

The pilots also highlighted general weaknesses in existing national information systems. Its important that the process of conducting PSIAs does not inadvertently set up parallel data collection systems specifically for PSIAs which are likely to be inefficient and could take resources from national systems. **The challenge is to strengthen the existing systems.** Data problems were greatest in countries emerging out of transition (Armenia), where the degree of public mistrust in data tending to be higher than in countries with a more stable background (Uganda).

What did the PSIA Pilots achieve? Influence and Impact

Does the success of PSIA depend on the extent to which clear recommendations made in the report are adopted? Experience shows that this is too ambitious. Few of the Pilot PSIAs reached clear policy conclusions and **their influence was more complex.** These were short-term demonstration exercises on discrete topics.

The short time available for the Pilots **left little room to follow up the research findings and influence the policy process directly.** In Armenia there is some evidence that the PSIA has impacted on policy development, with several examples of subsequent policy decisions related to water metering reflecting the conclusions of the PSIA. This reflects in part the close relationship between ERI and policymakers within the MoF. However, the PSIA is deemed to have had limited impact so far on country capacity. The Government of Armenia is now looking to donors such as DFID to support the development of PSIA work as part of PRSP implementation.

In Indonesia, the PSIA played an important role in bringing to the table a host of different interests surrounding changes to the rice import tariff. It clearly stimulated debate as both sides used the PSIA findings to strengthen their argument. The Government’s subsequent inaction on the proposed tariff increase cannot be linked directly to the PSIA but may reflect a growing awareness on the part of some decision-makers about the political risks involved in making such a change.

Box 3: Analysing Political Interests

Most of the PSIA studies reviewed the political acceptability of proposed policy changes, often using this to give insight into the scale of concern amongst particular groups. The Indonesian PSIA drew up a ‘Policy Interest Matrix’ to summarise the different viewpoints of all key stakeholders across government and beyond, in this case regarding a proposed increase in the rice import tariff. This matrix was then used as a basis for discussions in workshops. This proved to be a highly useful tool in understanding the political context of policy change, and the complex sets of interests (and risks) that government’s are faced with in making and adjusting policy. Since then, SMERU has adopted the PIM in work it is doing for the Government on the effect of fuel price increases on the poor

The indirect influence of PSIA on a particular policy change may come in terms of building capacity, creating a climate for evidence-based policy making or building citizen engagement. The effect on public confidence in particular institutions may be more influential than any direct effect on a specific policy. In many cases, it may not be possible to trace the influence of a PSIA to improved quality of debate.

There are also cases when the Pilots introduced methods and techniques that had not previously been used in a country. SMERU in Indonesia is now incorporating the Policy Interest Matrix in its work (Box 3) and is planning to invest in developing its own CGE model. The Ministry of Finance in Uganda is planning to conduct a programme of PSIA in both ex ante and ex post analysis under the umbrella of PEAP implementation.

If government policy is already “set in stone” then PSIA is only useful in demonstrating the benefits of the policy to other stakeholders. However, in many cases, there are complex policy positions within government, often related to the accessibility of information. A PSIA **may shift the balance of support within various departments of government**, notably by making information more widely available.

Thus, support for PSIA needs to take account of the political economy of real policy and decision-making in country, plus past successes and failures in building capacity for policy analysis.

Moving beyond the pilot stage.

Both from DFID and the IFI PSIA Pilots achieved a lot in a short time, including establishing support and prominence to evidence-based analysis with a poverty focus. In particular, the DFID pilots showed that a lot can be done in a limited time and with existing data. This review has shown up some of the successes, and some of the challenges in carrying out PSIA type analysis, and things are getting more complicated! Since the workshop in 2002, the PSIA agenda has moved forward.

The World Bank is centrally supporting around 35 PSIAs around the world and more bilateral donors are getting involved. Governments and donor partners are now facing issues of how to prioritise policies for analysis, determining the scope of PSIA, striking the balance between IFI's requirement to do PSIAs and their integration into national policy processes, and tricky issues of good practice and minimum standards in both process and content. These are covered in other DFID and World Bank publications.

What should we learn from the pilots? Ideally, a PSIA would not look like the pilot studies. Analysis of poverty and social impacts should form an integral part of the national decision making process, and further analysis should continue throughout the policy cycle. However this will take time, and there will continue to be occasions when a stand-alone study can add value- when poverty impacts urgently need to be incorporated in programme design, to incorporate new information/data/methods, or to introduce new players/analysis to the debate.

Endnotes

1 For more on the DFID pilot studies please visit www.prspsynthesis.org/psia.html and on World Bank pilots visit www.worldbank.org/psia

Annex I: Summary of DFID Pilot PSIA's

	Policy	Methods	Data Sources	Policy Decision
Armenia	Water Reforms	<ul style="list-style-type: none"> * household impact * producer response * political attitudes 	<ul style="list-style-type: none"> * household surveys * sector studies * social case studies 	<ul style="list-style-type: none"> * mitigation schemes
Honduras	Electricity Reform	<ul style="list-style-type: none"> * household impact * economic linkages * econometrics * risk and coping strategies * health and education impact * simulation modelling * political attitudes 	<ul style="list-style-type: none"> * household surveys * special surveys & focus groups * sector studies * social case studies * institutional accounts 	<ul style="list-style-type: none"> * type of structural reform
Indonesia	Rice import tariff	<ul style="list-style-type: none"> * macroeconomic analysis * economic linkages * producer response * household impact * 'policy institution matrix' 	<ul style="list-style-type: none"> * macroeconomic accounts * household surveys * sector studies * social case studies * international comparisons 	<ul style="list-style-type: none"> * whether to raise tariffs
Mozambique	Fuel tax	<ul style="list-style-type: none"> * macroeconomic analysis * economic linkages * household impact * vulnerable groups 	<ul style="list-style-type: none"> * household surveys * macroeconomic accounts * rapid special survey * international comparisons 	<ul style="list-style-type: none"> * how much to raise fuel tax
Rwanda	Public debt	<ul style="list-style-type: none"> * macroeconomic accounts * theoretical modelling * investment analysis 	<ul style="list-style-type: none"> * macroeconomic accounts * government accounts * aid data 	<ul style="list-style-type: none"> * level of public investment / borrowing
Uganda	Export Promotion	<ul style="list-style-type: none"> * household impact * producer response * intrahousehold analysis 	<ul style="list-style-type: none"> * case studies * sector surveys * household surveys 	<ul style="list-style-type: none"> * nature of support for export promotion