

PSIA and the Policy Process: The Armenia Social Sector PSIA

Background

Armenia is a post-Soviet country which faces many problems related to its transition from a centrally planned economy to a competitive market economy. Economic growth in recent years has had little impact on employment and incomes; just under half the population is still living below the poverty line. The informal economy is estimated as equivalent to half of GDP, probably employing around 30 per cent of the labor force. The population relies heavily on remittances from the Armenian diaspora. There has been no significant change over the last few years in the income gap between rich and poor.

Origins of the Armenia social sector PSIA

With the adoption of the Armenian Poverty Reduction Strategy (PRS) technical discussions about implementation decisions were held within and between ministries. While some of the reform projects in the ministries were well understood and prepared (often within donor-funded projects), other initiatives created dissent within the PRS-coordinating Ministry of Finance and Economy and among those line ministries, responsible for their implementation.

The Armenian PRS entailed a precise set of policy reform proposals for the social sector. The Ministry of Labour and Social Issues (MLSI) challenged some of them, especially the planned phasing out of unemployment insurance and the cancellation of the one-time family benefit. Both these activities were supposed to free up resources for other, more proactive, labor market policies.

A PRS Working Group recommended a PSIA on the Social Sector, where many of the reform projects were supposed to have real and immediate bearing on poverty levels amongst pensioners, families, the unemployed and special needs groups. This was carried out by the MLSI with support from the GTZ. Armenian specialists carried out the bulk of the studies, with support from Polish experts who had experience of similar reforms in Poland.

The PSIA methodology

The social sector PSIA was initiated in spring 2004 and was designed to run for 12 to 18 months. It was planned as an innovative mix of process-oriented policy design advice, macro modeling and a case study on the social situation in two small towns, where unemployment and poverty incidence were extremely high. So as not to duplicate other reform analysis, a desk study of existing material on the sector was carried out and the active coordination with other donor agencies sought.

A number of instruments were to be combined to help answer seemingly simple questions: which set of policies is more likely to have better effects with regard to poverty reduction in the Armenian context? Is the policy designed at the centre producing the expected results on the ground? Could there be a social sector strategy within PRS that optimizes effects on unemployed and vulnerable through the existing

mix of policies, or should policies be radically changed, institutions altered, as was proposed in the PRS itself?

Given the scarcity of time and resources, and the very specific reform proposals, a working group was set up between two departments of the Social Ministry and the Labor Agency, supported by independent national and international consultants.

Following a concise desk study on social sector analysis and reform evidence available in/on Armenia and a very brief institutional analysis, including financial and legal analysis, the PSIA generated data and analysis using the following methods:

- **A Poverty Analysis Macro Simulator (PAMS) macro model.** A Poverty Analysis Macroeconomic Simulator (PAMS) is an econometric model can be used to address the impact of macroeconomic policies and exogenous shocks (such as an exogenous rise or fall in output growth, or a change in the sectoral composition of output) on individual households. For the Armenia PSIA the international team constructed a PAMS using National Household Survey data. The main question behind the exercise concerns the Armenian paradox of high GDP growth and low impact on poverty
- **A case study on social and labor market relations in two different priority areas, consisting of two qualitative and one quantitative survey.** The qualitative surveys generated contextual data and analysis through focus group discussions with groups of unemployed, family benefit recipients or social assistance registered. These were combined with in-depth interviews with officials from those labor agency offices administering benefits in the local areas. The qualitative part elicited responses to questions such as: “do you feel the benefit rate contributes significantly to your family income” and “how to you intend to make up for the shortfall, if the insurance part is cancelled?” Benefit recipients gave opinions on design flaws and delivery problems from their perspective, while administration officials diagnosed process issues – both relevant for decision-making and design of the policies in question.

The quantitative part of the case study was designed after the qualitative results were in and tested, so as to test statistically some of the qualitative findings. From the total sample drawn from the two small cities, several sub samples were stratified to isolate social assistance recipients. In this way, the results of the qualitative survey were strengthened by the quantitative study.

The PSIA process: Tool-based facilitation

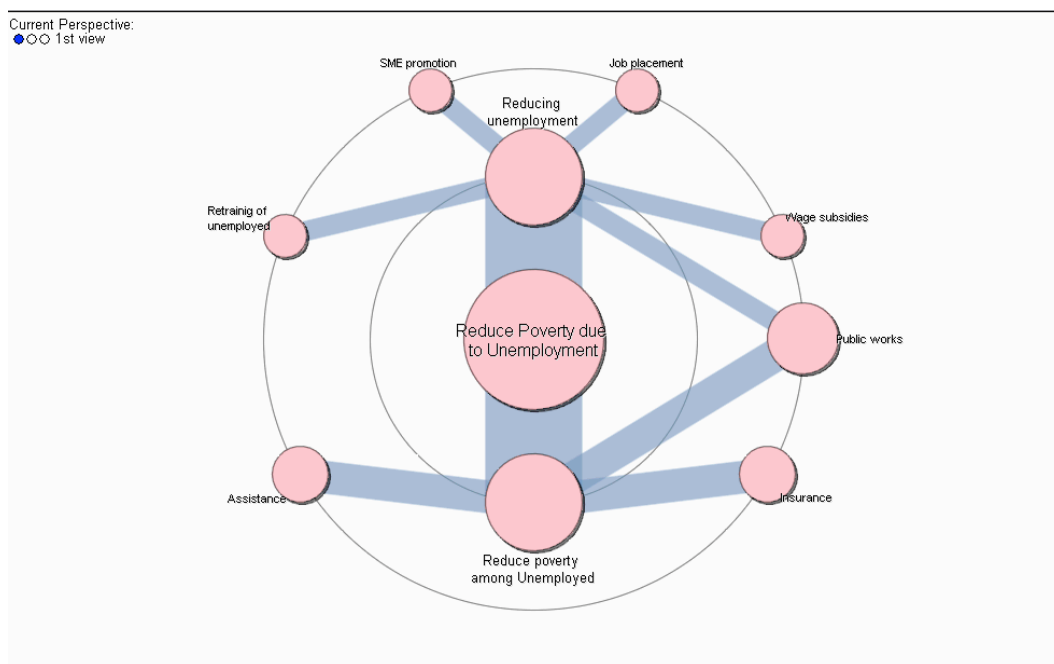
Instead of having a small group of outside experts produce yet another study on the subject, the motivation behind the PSIA could be described as an attempt to generate better knowledge for decision-making within the ministry concerned, using mainly Armenian expertise, and facilitating better process learning through joint knowledge creation amongst the policy stakeholders.

The aim of the approach was to improve decision-making by facilitating joint learning. The consultation and negotiation mechanisms were the central part of the undertaking. During various presentations, workshops and bilateral meetings, Armenian officials in

the coordinating and implementing ministries became better informed as they discussed the implications of the analytical studies and models.

To support the PSIA process approach, the PSIA team used a software moderation tool called *Think Tools* to integrate the PSIA analytical process with the policy process. The Think Tools method is designed to feed information into a facilitated discussion on policy alternatives (e.g. between active and passive labor market policies) and to help establish consensus on the respective merits, costs and implications of various policy options and mixes.

Figure 1: Concentric distribution system



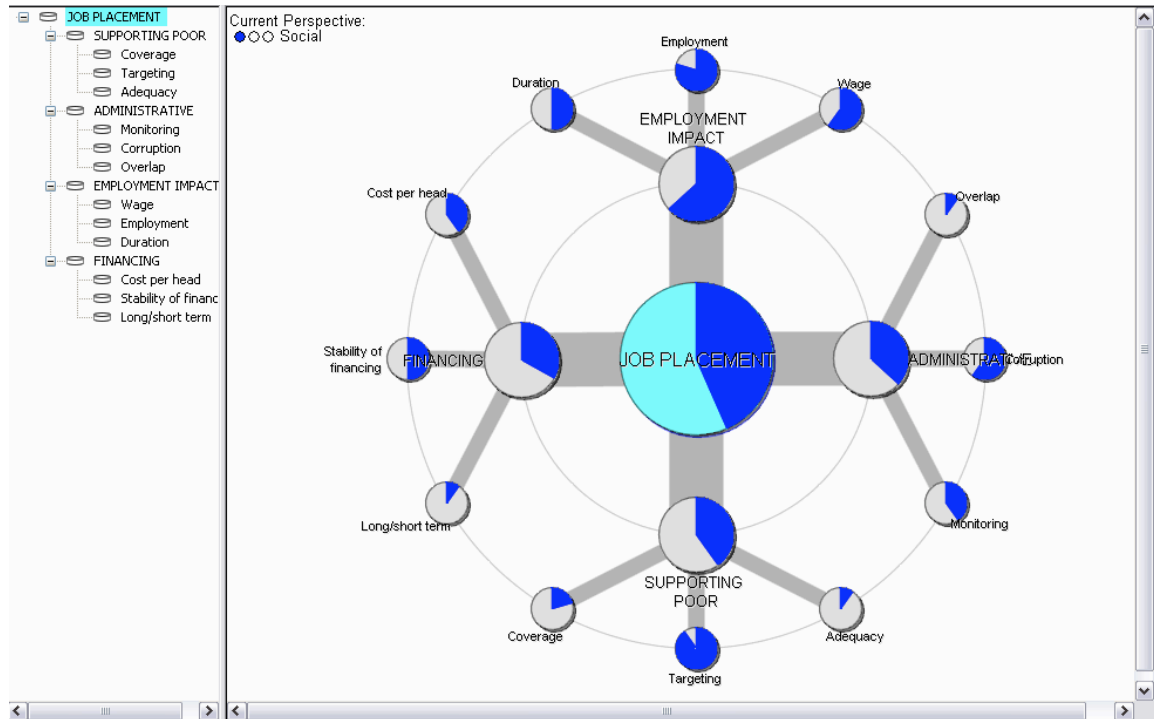
Source: GTZ Armenia (2005, 101)

In a first step, policy alternatives are mapped within one “concentric contribution system”, as shown in **Figure 1** above. To increase the level of differentiating detail and at the same time to depoliticize discussions, the options were made comparable through the application of specific measurable criteria that should apply to all policies screened in the sector including: efficiency, redistribution, financial and administrative features. By breaking down the evaluation of proposed policies into a set of measurable indicators, the stakeholders were able to score different aspects of the poverty reduction impact of each policy alternative. If one policy criterion, for example, equality, was given a high score while another, such as administrative efficiency, was given a low score, these differences could then be traced and their implications discussed.

In the example for job placement performance given below (**Figure 2**), job placement is high regarding the employment impact of reform (efficiency criteria), but low for the redistributive impact (although targeting receives very high scoring) and financing, this giving a relatively low overall score. These scores and the risks they represented to

policy reform were also used for social risk assessment and to assist in the identification of strategies to manage those risks more effectively.

Figure 2: Job placement performance



Source: GTZ Armenia (2005, 102)

Each criterion, substantiated through a set of indicators or variables, visibly contributes to the overall score for the policy reform, while also showing evaluations for specific elements of a policy reform. Significantly, however, the relative weights of the individual policy variables can be changed in the tool according to political or other strategic considerations and thus mirror differing priorities and objectives of the officials present. Hence while Ministry of Finance officials tended to stress sound financing, for example, social sector line ministry staff might have had a greater interest in the distributional aspects of the same policy.

In the Armenian process, the PRS working group introduced a proposal to phase out some “passive” labor market measures and use the resources for alternative proactive employment generating policies – to be eventually carried out by private sector agencies. Not surprisingly, the proposal met with objections within the ministry. In the ensuing bilateral negotiation process, both sides invariably argued that their preferred policy option would have a more progressive impact, backing up their positions with their own assessments or projections. Once both ministries had sent delegates to facilitated consultations and decision meetings, however, the policies in question were discussed in greater detail using agreed criteria, so that the comparisons became visible and the arguments understandable.

During the implementation of PRS reform activities in key areas of social protection, the coordinating and implementing ministries entered into a more learned discussion process on the benefits, adequacy and impacts of specific reform measures. While the PSIA was especially designed to deliver a framework or method for creating decision-supporting evidence in the short run, this evidence in turn can support a longer term mode of more technical and less politically biased dialogue. The elaboration of valuations/indicators can thus lead to a better understanding within the ministry on how to measure impact of reform initiatives and to compare options. This in turn allows them to defend more carefully and coherently their preferred options in the face of opponents - and possibly in the presence of involved civil society representatives. Above all, it becomes obvious that the evaluation of policy alternatives is not solely a matter of political standpoint or an immediate function of line ministry loyalties. Achieving compromises can be greatly enhanced, if choices are made comparable through criteria and variables understandable and acceptable to the parties involved. Bias towards one or the other criteria in different ministries can be visualized to show trade-offs and make implications clearer.

The approach thus is hoped to facilitate

- Consensus on overall applicable criteria for comparison,
- Their substantiation through measurable expected outcomes
- Linking to a future monitoring discussion between the participants on the same basis
- Organization of group thinking and decision making in complex situations

Conclusion

The process-oriented approach of the Armenian PSIA emphasized and implied an open-ended policy process built on standardisable indicators of performance and impact. The debate was framed in more technical and less politically sensitive terms – notably through the joint definition of performance indicators using the Think Tools method – and thereby contributed to a better understanding of reform alternatives. This process is ongoing: the university experts involved still work on data from the quantitative survey to answer other questions from the Working Group, and the PAMS macro model will be used in the Ministry of Finance and Economy to elaborate projections and develop scenarios for the PRS update.

During the PSIA-process, some new elements were immediately incorporated into the policy design. For example, following one of the first presentations by the international team, the officials decided to earmark funds for a wage subsidy programme. In the same period, the ministry developed a new draft law on social assistance. For the first time ever, the law has tried to address complex strategic policy implications, and was presented to civil society and independent experts in a public hearing.

While the PSIA in itself was mostly designed to produce decision-supporting evidence in the short run, the transformation to a more technical and less politically-biased longer term dialogue should result in a better understanding and handling of impact analysis. The elaboration of valuations/indicators thus led to a better understanding within the

ministry of how to measure the impact of reform projects and to build a fit-for-purpose monitoring instrument for the PRS.

One important lessons of this PSIA was that even a solidly mandated and a sufficiently specific reform initiative under PRS implementation is of no help in depoliticizing the discussions. The well-focused comparative approach described in this case study takes a lot of time and is very communication intensive, bringing with it the need for a clear and communicated exit strategy. But the prize is the potential for a sustainable policy discussion in which ideological positions are mediated by measurable and comparable indicators of performance and impact.

Source: Adapted from Tools for Institutional, Political and Social Analysis of Policy Reform: A Sourcebook for Development Practitioners (Conference Edition) (2007) The World Bank, Washington, DC.