

Poverty and Social Impact Analysis (PSIA): common themes and issues arising from five pilot studies.

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This paper outlines some common themes and issues arising from the conduct of Poverty and Social Impact Analysis (PSIA) of macroeconomic and structural policy reforms. It draws on the experience and interim findings of five PSIA pilot studies, carried out by independent researchers on behalf of national governments in the pilot countries and DFID London, largely between May and September 2002. Studies were undertaken in Mozambique, Rwanda, Honduras, Armenia and Uganda. Two further PSIA studies carried out in Indonesia and Orissa State, India, under the direction of DFID regional offices, also provide useful information and lessons.

Background

2. In May 2001, DFID and the PSIA Working Group of the Joint Implementation Committee of the World Bank and IMF agreed to pilot PSIA in a number of countries, under two separate initiatives, and to bring together the results of this work at a joint conference in autumn 2002. The aims of the DFID-supported pilot studies were:

- ❑ To learn lessons and provide guidance for future approaches to PSIA
- ❑ To provide national policy makers and Bank/Fund teams with timely analysis to inform the design of lending programmes
- ❑ To provide a focus for more informed debate between various stakeholders
- ❑ To help national governments identify capacity requirements.

3. DFID responded to demand from governments and its own country programme offices to undertake pilot studies in six countries. DFID pilot studies adopted a pragmatic approach, with emphasis on learning what is possible to do in a small amount of time, using information and knowledge available in country. The government of the pilot country was envisaged as the primary client for the PSIA results. The DFID-supported pilots were also intended to provide a learning opportunity about how PSIA could be situated within national policy processes so as to maximise ownership and capacity building. In each pilot country, 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.

4. Research teams comprised two international and at least two national researchers, with an even mix of economic and social analysis skills. Terms of Reference for the studies specified four outputs:

- ❑ A review of assumptions among policy makers about policy-poverty links
- ❑ A demonstration PSIA on a selected macroeconomic or structural policy, with choice of policy justified with reference to national stakeholders views
- ❑ Exposition of methods used and rationale for methodological choices.

Key Findings from the Pilot Studies

5. **It is possible to do PSIA.** That is, it is possible, within a relatively short period of time and making use of existing knowledge, to identify certain kinds of impact of specific policies on the poor, and to add important missing ingredients to a policy debate. In Uganda, for example, PSIA uncovered important information about constraints in supply side responses to expanding coffee production. In Mozambique, PSIA quantified the impact of price changes arising from fuel tax increase on the purchasing power of the poor. In Honduras, PSIA identified environmental and health implications of households substituting different energy sources in response to electricity price rises.

6. **PSIA can identify livelihood groups that will be adversely affected** by reform measures, and **risks of increased vulnerability of individuals and communities** arising from proposed policy changes. In Mozambique, PSIA identified grain millers, fishing communities, rural women, and communities in isolated rural areas as groups likely to face particularly adverse impacts of fuel price increases. In Armenia, the removal of subsidies for irrigation water was found likely to negatively affect communities in mountainous regions. In Honduras, risks from environmental degradation due to household substitution strategies were identified. In Uganda, it was found that there were risks to human development from increased reliance on women's non-wage labour in consequence of increased cash crop production.

7. **PSIA can also identify complementary policy interventions needed to minimize anti-poor impacts.** For example, the Uganda study recommended increased complementarity between the STRATEX initiative and the on-going Programme for Modernisation of Agriculture, with priority on implementing gender sensitive components of the latter programme. In Armenia, the study recommended linking utility (water) price reform to housing and maintenance fees, and linking irrigation water policy to the provision of community level assistance to develop the non-farm sector.

8. However, the pilot exercise has shown that **it is easier to analyse specific policies** (within a macro framework that is delivering growth and stability) **than reforms that underpin the whole of the macro framework.** It is clear, for example, that the Rwanda PSIA pilot will require more than the allotted number of days in the pilot study (40 per researcher) to analyse the poverty impacts of different fiscal deficit scenarios.

9. Further, the pilot studies have shown that **PSIA of specific reforms will not be able to encompass all possible policy relevant analysis.** This can be due to time constraints, data availability, or the amount of pre-existing and relevant analysis and national expertise. For example, in Mozambique it was decided— due to time constraints— not to analyse the poverty impact of alternative revenue raising measures, even though this would have provided important additional information for policy makers. Similarly, in Honduras, it was not possible to analyse general equilibrium effects of electricity privatisation, because there was no SAM (Social Accounting Matrix) or CGE (Computable General Equilibrium) model to make use of.

10. Hence, there is a clear **need to manage expectations** about what PSIA can accomplish, especially around IFI lending programmes. PSIA can produce knowledge that can feed into the “moving train” of the policy process but it is unlikely to cover all possible poverty impacts (with reference to an agreed counterfactual) ex-ante, during implementation or ex-post.

11. The pilot exercise highlighted key **analytical challenges** of PSIA:

- ❑ **How to ensure scenarios are well specified and policy relevant.** Counterfactuals need to be specified and should usually take the form of a scenario in the absence of reform.
 - ❑ **How to identify transmission mechanisms** that can be followed through to assess the impact of a policy on household well-being.
 - ❑ **How to weight impacts on different groups of the poor** – e.g. the impoverishment of a small number of people in a particular group versus more marginal negative impacts on the majority.
 - ❑ **How to evaluate negative poverty impacts at household level against gains at the macro -level** that may only be realised at some considerable time into the future.
12. The pilot exercise also highlighted key **process challenges**, including:
- ❑ **How to prioritise policies for analysis.** There will be competing contenders for PSIA among various policy measures. Given that PSIA cannot cover every relevant policy, there is need to prioritise the choice of policies for analysis within a scheduled work programme. These choices need to balance the requirements and timeframes of IFI lending programmes with the views of national stakeholders about which policies are most pressing in terms of national debate and building reform constituencies.
 - ❑ How to **ensure PSIA meets reasonable standards** . How can the quality of PSIA studies be assured, and who should set quality standards? There may be a tension between a standard of PSIA that is required as part of Bank/Fund review processes, and PSIAs that are not part of these processes.
 - ❑ **How to orientate the findings and results to be user-friendly for policy makers.** One external reviewer notes “(i)t is important that PSIAs deliver policy advice in a way that can be readily understood and internalised by the appropriate officials and politicians.”

Methodology

13. **The pilots used a combination of qualitative and quantitative methods.** Quantitative work tended to dominate the analysis, but qualitative work provided value-added in terms of policy relevant information, in terms of shaping the design of the quantitative work, and in terms of producing additional findings and recommendations regarding specific groups.

14. However, **PSIA would benefit most from a genuine iteration between qualitative and quantitative methods.** The challenge is to develop a design framework for PSIA that properly synthesises qualitative and quantitative findings. This proved difficult to achieve. In order to iterate successfully, there must be a common analysis of the structure of the economy and the relationship of the poor to that economy. This, in turn, requires that sufficient time and attention is given to identifying some of the fundamental characteristics of these structures and relationships, and that researchers are able to form a consensus view on these issues.

15. In general, qualitative methods should:

- inform research questions
- test assumptions underlying partial and general equilibrium analysis
- test the relevance of variables to be included in these analyses
- explain the limitations that missing/unavailable data imply for interpretation of results

Qualitative methods should also be used to:

- map key livelihood groups among the poor
- identify intra-household processes that affect supply responses
- examine assumptions about the translation of increased household income into poverty outcomes
- uncover political dimensions of policy formulation and implementation (i.e. relationship between state and interest groups)

16. Importantly, household survey categories do not always give policy useful insights into impacts on specific livelihood groups among the poor. This is because surveys tend to use “gross” categories such as urban/rural, wage/non-wage, which are not helpful for qualifying impacts on the livelihood strategies of poor groups, or for designing complementary policies to address these impacts. Identifying livelihood groups in terms of commonality in composition of household income requires further investigation. It also typically requires synthesising available pieces of information that are not normally packaged together for use in macro policy analysis.

17. **There is untapped potential in the information presently available in country** on poor livelihoods and micro level processes, which could be used to improve the poverty focus of macroeconomic and structural policies. The Uganda pilot study, for example, make good use of micro-level information and available case studies to identify weaknesses in the formulation of the STRATEX programme, in terms of gender blind assumptions about supply responses from poor households. Tapping the potential of such information requires clear recognition at the early stages of PSIA design of how the information will contribute to the overall analysis. It also requires dedicated effort to identify, triangulate and synthesise qualitative data from disparate sources.

18. To gain the most from a multidisciplinary approach, **the design of PSIA must clearly specify, at the outset, how economic and social/institutional analyses will be sequenced and combined.** There is a need for strong overall management of PSIA studies to ensure that different (qualitative and quantitative) research strands are pulled together in a substantive and timely way. In-country, as well as international management of the research process will be important, especially when studies are heavily reliant on national research teams. This is not just a logistical point, but of critical importance in promoting genuine multidisciplinary working.

19. **Country-based fieldwork is critical.** Small, short, rapid appraisal methods can pay big dividends, and national knowledge can – in the absence of dedicated surveys – provide useful “rules of thumb” regarding economic behaviour by which first order approximations of impact can be judged.

Ownership, Link to PRS Process and Capacity Building

20. It is not possible at this stage in the piloting exercise to draw any conclusions about the degree to which the studies have contributed to building evidence-based policy making, mainly because they have not yet been circulated and widely discussed in country. In general, feedback from DFID country offices suggests that the way the studies were carried out (with government as main clients, linked as far as possible to national research institutions) has gone some way towards embedding PSIA into national processes.

21. We have, however, been able to learn from past mistakes as considerable poverty analysis has been done by donors and IFIs whose results remain weakly owned, and used by national institutions. Government representatives in Uganda noted that lots of policy research is commissioned, but in a fragmented and isolated way. Capacity problems mean that donors traditionally drive the research agenda. PSIA should help to correct this.

22. And our experience to date suggests that PSIA can be a way to open up national debate about policy options. During feasibility missions to the pilot countries, there was a strong demand from NGO, academics, government, IFIs and donors for PSIA type analysis that could facilitate a more informed policy debate. For example, in Indonesia, NGOs and academic institutions are interested in the PSIA project as a way to inject their ideas into the policy process and for increasing transparency. However we have also found that expectations created among national stakeholders around PSIA relative need to be carefully managed to be realistic about what can be accomplished in a relatively short time frame.

23. The experience of our pilot studies leads us to conclude that to influence national debate and policy processes, PSIA needs to be managed and institutionally anchored at country level. Otherwise key opportunities to influence national debates and build consensus may be lost. At the same time the work programme for PSIA needs to be strongly linked to Bank and IMF cycles of lending reviews and programme negotiations.

24. One of the advantages of our pilot study exercise was that researchers were able to liaise closely with Bank and Fund country teams in dedicated meetings in Washington. We think that a mechanism that enables key stakeholders, government, IFIs, donors and perhaps others, to discuss the PSIA project is essential to ensure that all stakeholders are aware of what the research can realistically produce in the timeframe specified, and so that ideas can be fed into the research design - for example in the scope of fieldwork planned and the scenarios to be analysed.

25. PSIA benefits from being seen to be an independent analysis. Several of our government partners raised concerns that the results of the research must be credible as an independent conclusion reached on the basis of sound analysis, not predisposed or predetermined to reflect overarching positions of particular institutions or individuals.

26. The pilot studies came to various conclusions about building institutional capacity for PSIA in the future. These range from proposals for a new, independent PSIA organisation (Mozambique) situated outside of both government and academia, to PSIA being situated within government attached to relevant sector units. Recommendations, appropriately, vary according to country context. Although PSIA is seen as closely associated with monitoring and evaluation work (e.g. Uganda) not

all PSIA can fit comfortably within existing PRSP monitoring arrangements or institutions at this stage. For the majority of pilot studies, PSIA work was overseen by macroeconomic offices and/or units with overall responsibility for the PRSP process.

27. In general, recommendations for building national capacity for PSIA need to take clear account of:

- the political economy of real policy and decision-making in country
- past successes and failures in building capacity for policy analysis
- institutional arrangements likely to promote a view in country of PSIA as independent, robust and credible in the national context

Possible “Operating Principles” for PSIA

28. We believe the potential of PSIA would be maximised by adopting an agreed set of “operating principles”. These principles would emphasise what is known about good practice in promoting evidence-based policy making.

29. In particular, PSIA should be undertaken in a way that is transparent and accountable. The principles of transparency and accountability need to apply to all stages of PSIA:

- *Which* policy(ies) is selected for PSIA – stakeholder views must be sought and considered; creation of wide ownership/interest in the process; need for forward planning jointly with all key players.
- *Who* does the analysis – independence of researchers is critical; ownership and legitimacy of the work need to be ensured; choices of who does the work should be driven by these considerations. Institutional capacity building should also figure as key concern.
- *When* it is done - what stage in PRS/PRGF/PRSC/SAL cycle. Need to incorporate enough time for sufficient stakeholder engagement and debate.
- *How* it is done - feedback to national constituencies; making PSIA public; workshops; injecting PSIA into policy debate and formulation/revision.

30. This approach could translate into the following **Operating Principles**:

- ❑ PSIA should constitute a robust and independent piece of analysis, outside the interests of any particular stakeholder or reform agenda
- ❑ PSIA should be managed and institutionally anchored at country level
- ❑ PSIA should be carried out in a transparent, consultative way that promotes national ownership of, and interest in, the process and the results
- ❑ Views of key national stakeholders should be sought and considered in the prioritisation of policies within a PSIA work programme
- ❑ PSIA should be carried out in such a way as to maximise opportunities for building national capacity to commission, manage and undertake the work
- ❑ PSIA results should be made publicly available in a timely way to contribute to building consensus around the best reform programme for achieving the goals of the national PRS, and informing policy decisions.