

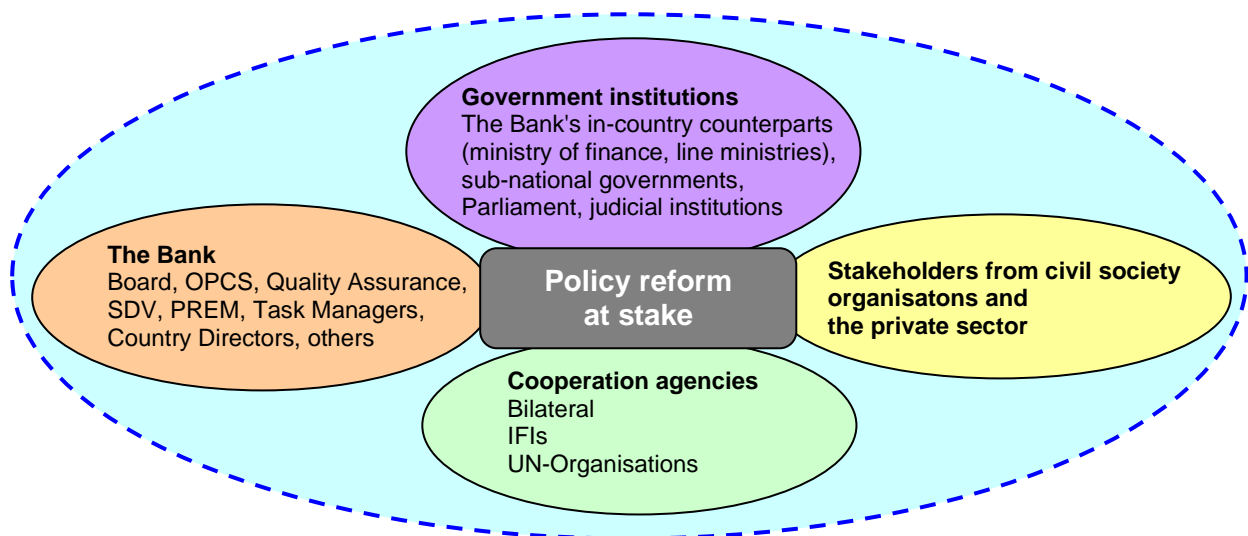
## Discussion Note and conclusions for further support of PSIA

### 1. What is PSIA about?

1. **The purpose.** Developed by World Bank in 2001 Poverty and Social Impact Analysis (PSIA) promotes a systematic and evidence based “analysis of the distributional impact of policy reforms on the well-being of different stakeholder groups, with a particular focus on the poor and the vulnerable”<sup>1</sup>. Experiences with policy reforms operationalized through Poverty Reduction Strategies (PRS) showed clearly that poverty and social impacts had not been considered adequately within the Bank’s policy design and program lending. The purpose of PSIA is to open up opportunities for more inclusive policy development processes and awareness-raising among relevant stakeholders of the potential impacts of policy reforms. In particular, directly affected groups should get the opportunity to scrutinise and debate potential impacts of various policy options through a PSIA process.

2. **From an instrument to an approach.** Rather than being any specific research tool or analytical method, PSIA is best understood as an approach that intends to contribute to national policy formation among different but interdependent stakeholders.<sup>2</sup> New policies emerge from a negotiation process that is shaped by these stakeholders. Therefore, the PSIA approach is not just an internal piece of analysis or a research tool of the Bank,<sup>3</sup> but an approach to support policy dialogue at country level. Stakeholder participation and anchoring of PSIA work in policy processes at country level are essential requirements for PSIA in order to contribute to democratic governance.

Figure 1: Major stakeholder groups



<sup>1</sup> World Bank: A User’s Guide to Poverty and Social Impact Analysis, Washington DC: World Bank 2003

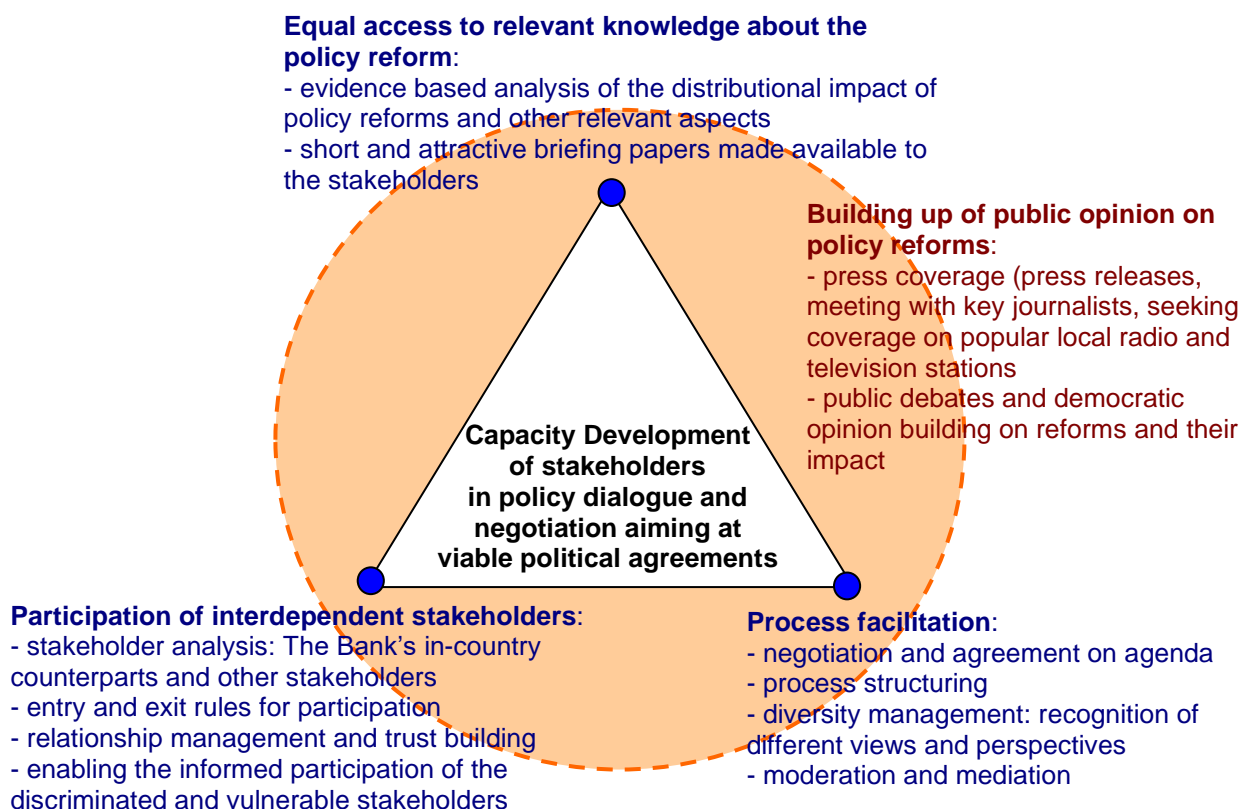
<sup>2</sup> Basically, the interdependence is due to the fact that none single actor is able to reach his/her goal without taking into account the others.

<sup>3</sup> Some PSIA related papers of the World Bank nurture the picture that the Bank is conducting its expert driven analytical work to prepare its own development policy operations, and – at the end - disseminating the resulting policy recommendations to the in-country stakeholders and other donors involved i.a. in budget support. This certainly does neither meet the expectations of partner countries and bilateral donors, nor the Bank’s own statements towards its facilitating role at country level.

In a nutshell, the PSIA approach intends to open up for a policy debate and gradually more democratically legitimated governance at country level. It is one major concern of the different donors engaged with PSIA, that getting the PSIA process right is as important as improving the quality of analysis and knowledge fed into the process.<sup>4</sup>

**3. The quality of process participation matters.** The specific evidence drawn from the experience on country level shows clearly that PSIA becomes only effective when it is seen as a part of a wider political process that needs to be shaped, organized and facilitated by the interested stakeholders. It goes far beyond *analytic underpinnings*<sup>5</sup> of development policy lending. PSIA applied in a simple technocratic way can even hamper and harm the creation of democratic governance patterns: the results of analytical work on possible consequences of policy reforms remain in the hands of a small group of experts and decision makers, the knowledge and perceptions of different stakeholders are not taken into account, there is no participatory multi-stakeholder dialogue and public debate on the envisaged policy reform; eventually the most noble intentions laid down in the World Bank Participation Sourcebook<sup>6</sup> remain lip service. Therefore, PSIA has to be seen as an essential part of a policy negotiation process and the quality of this process matters.

Figure 2: Basic model of multi-stakeholder policy dialogue and negotiation<sup>7</sup>



<sup>4</sup> GTZ/DFID (2006): Principles for PSIA Process in Policy Cycles and Stakeholder Participation.

<sup>5</sup> World Bank, OP 8.60

<sup>6</sup> See: Practice Pointers in Participatory Planning and Decisionmaking and in Enabling the Poor to Participate. In: The World Bank Participation Sourcebook. February 1996

<sup>7</sup> See: The World Bank Participation Sourcebook. February 1996.

<http://www.worldbank.org/wbi/sourcebook/sbhome.htm>.

and: Arthur Zimmermann: La Gestión de Redes /Network Management. Caminos y herramientas. Quito 2004

PSIA is about shaping participatory governance of policy reforms even in areas of limited statehood.<sup>8</sup> The configuration and quality of such processes can be fostered by equal access to evidence-based knowledge, informed participation of major stakeholders, relationship management and trust building among the stakeholders, strong linkages between multi-stakeholder dialogue and facilitation of negotiation and decision-making.

**4. The participation gap.** Experience so far has shown that civil society has had limited opportunities to engage in PSIA and even where NGOs have engaged in national debates around PSIA they have had limited policy influence. Many PSIA studies have been hardly communicated and remained inaccessible to civil society<sup>9</sup>. In some cases this has been because the highly technical content has challenged national NGO sectors with limited capacity. A technocratic use of PSIA has determined the level of civil society engagement, and in some countries civil society has, to a large degree, been excluded.<sup>10</sup> Poor stakeholder engagement is due to (i) a limited understanding of PSIA as an analytical tool for internal consumption by donors and the Bank instead of a process that stimulates national debate and multi-stakeholder participation, and (ii) inadequate time and resources to the development of a process of communication, consultation and participation which might incorporate any of the following features:

- Link up any analytical work on distributional impact of policy reforms with the following public debate and policy negotiation process.
- Apply sound stakeholder analysis as one feature of a minimal standard approach of PSIA to identify the key players in the reform process and then engage them in the policy debate.
- Produce concise and attractive papers and communication tools that facilitate opinion building and voice of different stakeholders with different backgrounds.
- Ensure broad press coverage and arrange meetings with key journalists.

In a joint NGO briefing note<sup>11</sup>, a number of relevant civil society actors addressed the World Bank, the IMF and the donor community with some recommendations representing their view on the way forward in PSIA:

- For each PSIA, a multi-stakeholder group including government, parliamentarians, civil society, donors, and the IFI should lead from the outset, setting the terms of reference; identifying priority areas for analysis; discussing policy options; and ensuring that outcomes of analysis affect policy decisions and monitoring. Where possible, this should be part of a pre-existing national policy process, such as the Poverty Reduction Strategy (PRS) process.
- PSIA should be ex-ante; country-led; and the results used in a public debate, which is then reflected in the advice the institution gives that country. It should also be a genuine attempt to survey a range of policy options.
- In order to foster debate around a range of policy options, PSIA should be completed at least six months in advance of the agreement on the reform. The findings of a PSIA should be widely publicised.

<sup>8</sup> See: Fuhr 1997, Rhodes 2000, Kooiman 2003, and contributions from Sonderforschungsbereich 700, DFG, Germany: Governance in Areas of Limited Statehood - New Modes of Governance, Freie Universität Berlin, Universität Potsdam, Wissenschaftszentrum Berlin, Stiftung Wissenschaft und Politik, Hertie School of Governance, e.g.: Ladwig, Bernd/Jugov, Tamara/Schmelzle, Cord 2007: Governance, Normativität und begrenzte Staatlichkeit (SFB-Governance Working Paper Series, Nr. 4, Sonderforschungsbereich (SFB 700), Berlin.

<sup>9</sup> See as an example: Draft of ODI evaluation report on the social pension reform in Kenya.

<sup>10</sup> According to the ODI report (2005): What has DFID learned from the PSIA Process?

<sup>11</sup> Joint NGO Briefing Note, September 2007: Blind Spot, the continued failure of the World Bank and IMF to fully assess the impact of their advice on poor people.

- The experience of the PSIA process should be validated to set up monitoring and participatory governance mechanisms of the policy reform.

5. **PSIA and aid effectiveness.** As a well integrated approach within the new donor coordination mechanisms, PSIA has the potential to promote shared understanding of the social impact of policy reforms, to deepen dialogue mechanisms at country-level, to strengthen alignment with the national policy agenda, to enhance MfDR, to foster in-country ownership beyond the ministry of finance and facilitate donor harmonisation, and to coordinate multilateral and bilateral support.

## 2. What are first assets of the German support to PSIA?

1. **Dialogue over policy options.** German Development Cooperation (GDC) has been involved from the outset in developing and anchoring the PSIA approach at the World Bank and in partner countries. GDC's interest in PSIA has been based on the perceived potential of the approach to address complex processes of policy reform in the context of Poverty Reduction Strategies (PRS). By introducing PRS processes, the relationship between donors and partner countries started to change. Policy prescriptions and broad conditionalities were to be replaced by dialogue over policy options, with the aim that policy reforms should result from a political negotiation process that involves different stakeholders from government and society at large. GDC regards the PSIA as a potentially powerful approach for strengthening multi-stakeholder policy dialogue, alignment with national policies, commitment and ownership, and at the end fostering democratic political decision-making.

2. **Mainstreaming and in-country capacity.** In 2004 a GDC-funded thematic trust fund for PSIA was set up within the World Bank, the German Poverty and Social Analysis Fund (GPSAF). Its purpose is to assist the Bank in mainstreaming the PSIA approach and to enhance World Bank and GDC collaboration at country level through joint implementation of PSIA work. The main objective of the German involvement is to support and promote PSIA as a means of enabling an evidence-based policy-dialogue in partner countries.

3. **Tapping GDC experience.** The cooperation between GDC and the World Bank was meant to create synergies between bilateral and multilateral GDC development work. It was thought that PSIA could benefit from the comparative advantages of GDC, particularly its on-site presence, long-term engagements with partner organisations and its embeddedness within the national institutional setting. GDC applies a capacity development approach which puts a joint searching and learning process with long-term assignments of advisors and integrated experts at the centre and which focuses on facilitating negotiation processes between different interest groups, creating participatory mechanisms and developing partner's negotiating capacities. At country level, this focus should enhance the integration of PSIA in a multi-stakeholder policy process.

4. **Preliminary results.** At least 150 PSIA were conducted in 72 countries to date. First results indicate that the PSIA approach has partly delivered on the above mentioned promises.

According to the Minutes of the 3<sup>rd</sup> Strategy Meeting for GPSAF<sup>12</sup>, the key results achieved through the GPSAF so far include:

- **Advancing the methodological approach** by developing and publishing an analytical framework and a toolbox for social, political and institutional analysis of reform (TIPS)<sup>13</sup>; raising awareness of political economy of reform issues with World Bank task teams, and promoting upstream PSIA to inform policy development.
- **Moving towards country-led PSIA** through on-the-job training and training courses for government officials (Tunis '05, Nairobi '06); combining with other PSIA funds for country-led PSIA work; initiating a strategic framework for country-led PSIA capacity development through a multi-donor initiative; and active collaboration with international NGOs to foster support for the agenda. Further demonstrated outcomes are: lively interest for open access to GDC experience (e.g. in Bénin and Zambia); increased demand for quality and compliance assurance; and country teams tend to integrate PSIA work on a regular basis.
- **Promising country level results from GPSAF supported PSIA's:** ¾ of PSIA findings directly informed or were integrated into Bank products and some of the GPSAF PSIA's demonstrated significant engagement with partner country policy makers.
- **Anchoring of PSIA at the WB:** The mainstreaming process seems to be limited to the SDV unit and PREM which can cause the well known 'zoo effect' for innovations that are isolated and rejected. The PSIA as an approach to policy dialogue does not yet have the status of a core procedure. But seen under competing priorities, it is at least mentioned in the Operational Policy on Development Policy Lending (OP 8.60)<sup>14</sup> as an option to strengthen the so-called *analytic underpinnings*. The meaning of an optional instrument for *analytic underpinnings* still reflects a rather technical understanding of PSIA as a research tool. The 'Good Practice Note' on PSIA, a guidance for Bank staff implementing PSIA, is currently under revision. The draft version displays two divergent understandings: Bank-led PSIA's as primarily analytic work and country-led PSIA's conceived as multi-stakeholder processes. The document does neither comment nor prioritise one interpretation which might reflect two divergent camps within the Bank on this issue. The position of PSIA could certainly be improved if the approach in the broader sense would find stronger recognition in the Board and with Task and Country Managers. This implies also that within the Bank it has to become clear that sound analytical work is an integral part and prerequisite for country-led PSIA's conceived as multi-stakeholder processes.
- **Good WB-GDC collaboration** demonstrated by outcomes such as encouraging results from country-level collaboration in phase I (2004-2006); GTZ mirror project facilitated identifying new areas for collaboration; and close collaboration at the donor coordination level and at individual country case level. Cooperation between GDC and the WB was partly rewarding in Kenya, Yemen, Madagascar, Malawi and Tanzania. In the case of Kenya (Social pension reform) the GPSAF supported the elaboration of a basic key study, but poor communication and lacking stakeholder participation could not enrich decision-making, nor enhancing national capacity for policy analysis and dialogue in Kenya. - In the

<sup>12</sup> Minutes of the 3<sup>rd</sup> Strategy Meeting for German Poverty and Social Analysis Fund (GPSAF), World Bank, Washington DC, July 30-31, 2007; see also: World Bank / Social Development Department (2007): Preliminary Results of the German Poverty and Social Analysis Trust Fund at the World Bank (TF 053048)

<sup>13</sup> World Bank (2007): Tools for Political, Institutional and Social Analysis of Policy Reform (TIPS). A Sourcebook

<sup>14</sup> Under the chapter "Design of Development Policy Operations" appears the paragraph *Analytic Underpinnings*. (...) As appropriate, prior analytic work includes analyses of the country's economywide or sectoral policies and institutions aimed at stimulating investment, creating employment, accelerating and sustaining growth, as well as analyses of the poverty and social impacts of proposed policies, environment and natural resource management, governance and public expenditure management, procurement, and financial accountability systems. Footnote 7 says: For guidance on poverty analysis, see OP 1.00, Poverty Reduction. For specific guidance on analyzing distributional effects, staff may refer to the User's Guide on Poverty and Social Impact Analysis.

case of Yemen, PSIA recommendations will now be operationalised in a sector wide approach (SWAP) – a Water Sector Support Program (WSSP) – and the Update of the National Water Sector Strategy. In some cases, the framework of the GPSAF provided ample opportunity for collaboration between the German development agencies and the World Bank at country level.

**5. Review on the way.** According to the GDC, there is consensus that the set up of the GPSAF was a good strategic option for taking PSIA a step forward, within the World Bank but also in partner countries and within the donor community.<sup>15</sup> Further achievements of the GPSAF, in particular on the mainstreaming process in the Bank and the policy making processes at country level will be reviewed, results are expected by the end of 2008.

#### 4. Preliminary assumptions and strategic conclusions

The above outlined analysis of recent PSIA work leads to a few preliminary assumptions and conclusions on the way forward.

##### A. Mainstreaming PSIA at the World Bank

###### Preliminary assumptions:

PSIA is an approach which enables and facilitates multi-stakeholder policy dialogue at different levels and in different sectors. To ensure PSIA as a means of fostering in-country policy dialogue, the Bank needs to apply a comprehensive PSIA approach that does not reduce the policy process to primarily analytic work. Thus, PSIA as a policy approach should be an integral part of the Bank's management procedures, both at the HQ and in the operational units at country level.

###### Conclusions:

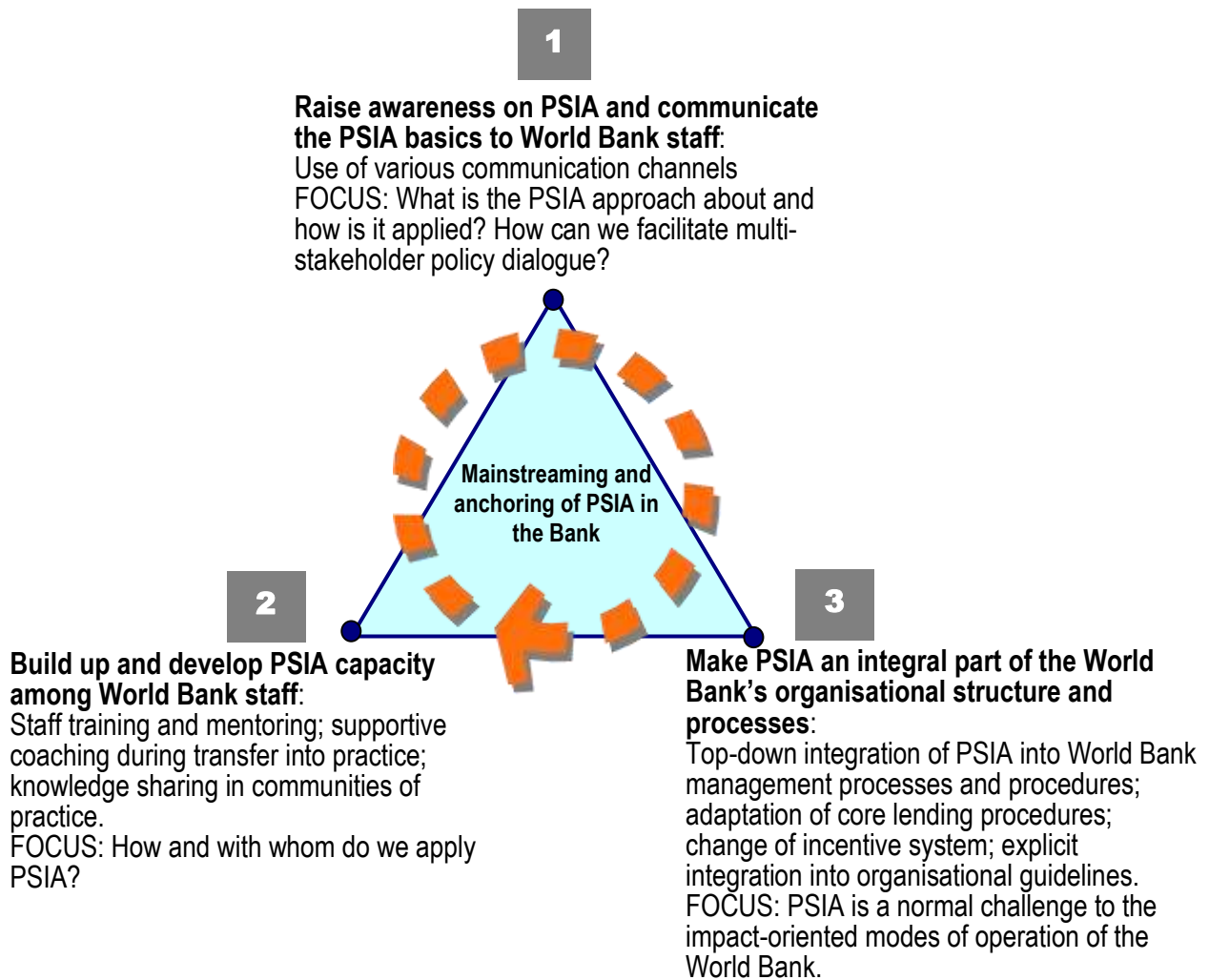
###### **A-1: Apply a comprehensive mainstreaming strategy which combines awareness raising and staff training with adaptation of core lending procedures and change of incentive systems**

Mainstreaming is not a quick fix. The most important question is how can the Bank take forward the operational implications of a PSIA policy approach and which institutional changes are required within the Bank to do so? Within the Bank's current institutional set-up, rules and procedures of development policy lending, the PSIA policy approach requires .a flexible partnership approach, stronger process-orientation, broadening the view and nature of interaction among different stakeholders, and facilitation of policy negotiation. In this perspective the mainstreaming strategy needs to address a series of crucial questions:

- How raise awareness and communicate the basics of the PSIA approach as a multi-stakeholder policy dialogue?
- What needs to change in the Bank? What are the key features within the current institutional set-up, the operational mechanisms and incentive systems of the Bank which constrain or enhance such an approach?
- How could such a change process be started and shaped?
- What are the incentives and who are the driving forces?

<sup>15</sup> According to GTZ: Einrichtung eines Treuhandfonds zu Poverty and Social Impact Analysis bei der WB, 31<sup>st</sup> of July 2006.

Figure 3: Mainstreaming – 3 driving forces



**A-2: Get the change agents on board: Ensure support from the Board of Executive Directors (top down), search for users in operational middle management and coordinate pressure of stakeholders from the countries (demand side).**

**B. In-country capacity development and benefits of GDC's experience**

Preliminary assumptions:

In-country capacity development can enable a sound political understanding of the PSIA approach and foster the policy process through joint training of the different in-country stakeholders, i.e. participation of democratic political institutions such as parliaments and associations but also NGOs, universities, think tanks and the media.

GDC's strong on-site presence in the fields of governance, economic and political consultancy, and sector reforms (e.g. water, social pension reforms, health) opens up the opportunity for in-country stakeholders to benefit and learn from GDC's practical experiences related to capacity development and facilitation of policy negotiation, creating participatory mechanisms and developing partner's negotiating capacities.

## Conclusions:

**B-1: Provide effective capacity development of key players in the public sector and in civil society in their access to knowledge, capacity to elaborate sound stakeholder analysis and ability to shape participatory political negotiation processes through training, coaching, communities of practice, exposure to cases in other countries in the region.**

**B-2: Strengthen linkages and access to GDC in-country and regional experience through active participation in PSIA processes of GDC staff.**

## **5. Perspective for further German engagement**

Mainstreaming in the Bank and in-country capacity development are complementary processes, but both move on different sites, with different actors and in different speed. On the solid bases of current experience, the German engagement should

(1) continue to provide technical assistance (expertise, facilitation) and resources for mainstreaming PSIA approach in the Bank. The fund can be shaped as a MDTF (multi donor trust fund), operated by the Bank.

Objective: By the end of 2013, World Bank applies the PSIA approach in all policy and program lending in a systematic way and enhances continuously the capacity of in-country stakeholders to shape policy negotiation and participate actively in these processes.

(2) strengthen the capacity development of in-country stakeholders (from government and society at large) through technical assistance and resources, linking up the PSIA process with GDC's local and regional experience. In order to promote PSIA as a political approach, the German engagement should widen up its support: the current focus on co-financing studies and analytical work has to become an integral part of an overall support to a political negotiation process that includes equal access to knowledge, stakeholder analysis, workout of different options, negotiation and public debate on poverty and social impact of policy reforms. The separate fund for capacity development can be operated by a regional institution (e.g. NEPAD, ECA, AU, AfDB) or by the Bank, possibly as a MDTF. The management set-up and guidelines of this fund should enhance the overall participation of governments and civil society stakeholders in terms of access to knowledge, voice, negotiation capacity and informed participation in public debate.

Objective: By the end of 2013, government representatives and interest groups from society at large are applying systematically poverty, social and distributional analysis in national policy negotiation processes and have acquired the necessary capacity to apply policy analysis more routinely in negotiation and public debate.

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