

## What principles have donors committed to?

In November 2003, the World Bank, IMF and bilateral donors held a conference in the Netherlands and agreed a framework of good principles for carrying out PSIA (The North Sea Manifesto, 2003). In addition the World Bank has laid out principles in its PSIA User's Guide and developed a **Good Practice Note**. DFID in turn has produced its own **Principles for Good practice** note which focuses on ensuring that PSIA contributes to "open(ing) up opportunities for more inclusive policy development processes" (DFID, 2005). In all of these instances there are some core issues to which donors have committed themselves. These include:

- PSIA should be **country-owned and led**
- There should be broad **stakeholder** engagement and **transparency**
- **Capacity building** should be an integral aspect
- There should be proactive **dissemination** of results
- Analysis should be carried out **prior** to any course of reform being decided
- Analysis should consider **policy alternatives**
- Analysis should be **multidimensional** and **multidisciplinary**

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## 3 Policy reforms – informed by what?

**"In order to make a real impact on policy decisions PSIA should be undertaken as early as possible prior to policy formulation. The potential policy options and trade-offs should then be considered on the basis of evidence, and the best solution identified."** (DFID, 2005)

**"Country ownership is the guiding principle. The process and content (of PRSPs) must be designed nationally to suit local circumstances and capacities, and should be useful to the country, not only external donors."** (Klugman, quoted in Stewart and Wang, 2003: 2)

'One-size-fits-all' blueprint policies that focus on macroeconomic benefits without considering how poor people will be affected by reforms, have largely been discredited. It has been recognised that policymaking is more likely to be successful in attacking poverty if it is informed by county-specific evidence. On this basis different policy alternatives that take into account the social, political and

In the following sections this report will examine how well the World Bank and the IMF have lived up to these principles by looking at the process of how PSIA has been carried out and its impact on broadening evidence and public debate around policy options.

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**"Opportunities for more inclusive policy development processes"**

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institutional consequences of reforms may be explored prior to reform implementation. This approach to policy-making requires a more multidisciplinary method. And to be useful for policymakers, analysis needs to be done in a timely manner. This section will examine to what extent alternative policy options have been considered in the cases that we have examined; whether research has been carried out in time to feed into policy discussions; and to what extent research has contributed to a more multidimensional understanding of reform, taking into account the social and political context.

### **Policy options or predetermined reforms**

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**"They (the IFIs) seldom link analysis with conclusions regarding policy alternatives and proposals"** (OED Annual Review of Development Effectiveness, 2004)

“Yet the majority of PSIA’s examined that have been carried out to date do not look at different reform options”

PRSPs have been criticised for their similarity and for being insufficiently drawn from country contexts. “If programmes were truly nationally controlled, we would expect at least some PRSPs to exhibit strategies that differ from the standard policy prescriptions in the past. However, a striking feature of nearly all PRSPs is the consistency of their approaches to poverty reduction” (Stewart and Wang, 2003: 19). PSIA’s should increase the context-specific analysis of different policy options for reform design. Yet they are in danger of becoming yet another hoop for countries to jump through in order to access donor financing, with analysis being more useful for donors to justify their lending programmes than for facilitating national policymaking processes where good policies are chosen and implemented.

A recent World Bank report indicated that “the PSIA process should involve as many key stakeholders in the reform as possible. The choice of the reform issue should emerge from broad discussion of the national poverty reduction strategy” (World Bank, 2004: 8). Yet the majority of PSIA’s examined that have been carried out to date do not look at different reform options but instead examine the mitigating effects of predetermined policies. Of the 18 PSIA summary reports that Eurodad received from the World Bank, only three appear to examine various policy options.<sup>9</sup> The IMF’s approach is primarily to look at mitigating measures. The Fund’s PSIA Terms of Reference stipulates that the team will work with area departments to “assess the likely impact of programme measures on vulnerable groups and, where appropriate, craft compensating measures.” The study on the implications of currency devaluation in Djibouti is an example of this type of approach - the research just looks at one scenario and identifies winners, losers and possible mitigation measures.

None of the four World Bank PSIA’s selected by Eurodad for detailed analysis took into account real policy alternatives (although differing preferences within a narrow agenda were considered in some instances). The WB PSIA on Ghanaian electricity reform examined the impacts of the tariff increases on poor people as well as the effectiveness of the lifeline tariff system in subsidising poor households. It considered various ways of approaching this lifeline system but “did not outline the different policy options for reforming the general electricity supply system” (Azeem, 2005).

The PSIA on cotton reform in Mali does not look at alternative policy options for restructuring the cotton sector. It had originally intended to look at different forms of privatisation but the PSIA was narrowed, when the political situation in the country changed. The initial concept note for the Mali PSIA on cotton stated that “the specific objective of this PSIA is to assess the poverty and social impact of cotton sector reforms, specifically concerning the impact of policies aimed at liberalizing the critical functions of the sector on Malian farmers”. At this stage cotton privatisation was a World Bank condition - the Malian government had agreed to liberalise the cotton sector in its 2001 **Letter of Cotton Sector Development** signed with the Bank. During 2004, however, given the experiences of cotton restructuring elsewhere in West Africa, the Malian government decided to postpone any major reform until 2008. The Bank’s PSIA is now focused on the impact of different pricing scenarios on the revenues of cotton farmers rather than at liberalisation options. The World Bank has continually advocated for the Malian government not to set prices artificially high, partly because of the government revenue required to prop up the sector. However, the PSIA at present does not look at different policy options that might support the Malian government’s plans for following the model of its neighbour, Burkina Faso.

In Vietnam, the state-owned enterprise PSIA designed a mitigating package for retrenched workers as a result of privatisation, and did not examine options for reform of the sector. In this case, however, it is not clear to what extent the SOE restructuring programme itself - rather than the compensation package alone - should have been the focus of a PSIA. This reform programme had been laid out in the Government of Vietnam’s agenda for some time in order to address the SOE’s low efficiency (Hague, 2005, 8).

There has been a tendency to only examine predetermined reform policies. Whilst reform of the particular sector may well be widely recognised as necessary, this taken-as-given approach does not allow for examining alternative reform designs in order to select the best pro-poor reform option.

<sup>9</sup> These are: PSIA of Crop boards in Tanzania which examines different public-private combinations; the energy study in Yemen which analyses different policies that determine the consumption prices for electricity and petroleum products; and the study on social protection reform in Indonesia which looks at different subsidies, grants and work-plan programmes.

### Box 1. Conditioning choice

Many reforms being analysed are already World Bank conditions for loan agreements. In **Tanzania** reform of the Crop Boards was a trigger condition for Bank lending. The Program Document for the second Poverty Reduction Support Credit (PRSC 2) stated clearly that a trigger for PRSC 3 would be "government approval of a strategy to reform two crop boards" (World Bank, 2004c: 3). The World Bank carried out a PSIA on crop board reform but the weak process of this PSIA did not contribute to ownership or pressure for change. Tanzania will now receive US\$25 million less than expected in its new Bank loan agreement due to the fact that the PSIA recommendations are have not been implemented.

In **Ghana**, public-private partnership in the electricity supply system was a prior action condition for the World Bank PRSC. The PSIA was thus more narrowly focused on the lifeline tariff system.

Privatisation of the cotton sector in **Mali** had previously been a World Bank condition. While this is no longer officially the case, according to a World Bank staffer, Mali will not move towards a PRSC until it moves forward with its cotton reform. Mali still only receives a Development Policy Loan from the Bank rather than a Poverty Reduction Support Credit – which would be larger and multi-annual – despite meeting the basic criteria for the latter.

### Keeping pace with reform?

A further limitation to PSIA feeding into policy debate is the tendency of analysis to be carried out or presented after the decisions have taken place. Eurodad's own research has shown that:

- some PSIAs have been carried out too late to influence policy reforms; and
- other studies that have been funded using World Bank designated PSIA funds have turned out not to be linked to any policy reform.

In 2004, the World Bank's **Vietnam** office reported to the central PSIA team within the Bank in Washington that in addition to the PSIA on state-owned enterprise (SOE) reform, they had embarked on three PSIAs on WTO accession, land reform and the coffee sector, and were planning a further one on VAT reform. However Eurodad-commissioned research has shown that of these five, three have been abandoned and only one has had any impact on reform design. The WTO PSIA was not completed due to weaknesses in the initial research methodology; the coffee analysis was a sector status study not linked to a reform; the land analysis is yet to be started and is not linked to any reform; and the VAT analysis is not going ahead and again is not based on any reform agenda (Hague, 2005, 4). The WTO accession in Vietnam is a clear example of where more analysis would have

been extremely useful, (especially for considering the much-feared negative impacts on the rural economy), yet, unfortunately, this PSIA study was not completed. Other analysis being supported by the Bank on trade is too late to feed into the negotiation process.

In **Nicaragua** only one of the three PSIAs were carried out before reforms were decided upon. The PSIA on agriculture and CAFTA was produced too late to feed into CAFTA negotiations. Incidentally, it is still not a public document. The PSIA on fiscal reform was carried out several months after the reform had been implemented. A PSIA on water reform is underway in Nicaragua but despite the fact that discussion of a new water law was to start under the Bank's first PRSC loan "it is not until PRSC2, when the management of water facilities has already been handed over to the private sectors, that PSIA is to be undertaken on the tariff regime" (Wood, 2005).

The PSIA in **Mali** on cotton reform was initiated in early 2004 when the Malian government was still planning to privatise the sector (see Box 1). The PSIA is now focused on different impacts of various pricing scenarios. However, it is not yet clear how this study will feed into decisions about cotton reform<sup>10</sup>, particularly as the cotton prices for the next three years were set by the government in February 2005. The **Malawi** example of the PSIA on the reform of the agricultural marketing boards is a well-debated example of analysis being presented after reform decisions have been taken (see Box 4), with the results of the study only being disseminated in the country after the parliament had been called for a rushed session to approve a law that would pave the way for privatisation.

### Where are the politics?

**"It is time that the WB got real about understanding the political economy of change"**<sup>11</sup>  
**Ian Johnson, World Bank Vice President**

The PSIA approach recognises the importance of considering the multidimensional factors that influence and are influenced by reform. A certain amount of stakeholder analysis to assess winners and losers of reform has been done in many PSIAs, but it has tended to be narrowly focused. The broader political system, informal and formal institutions, incentives and power structures are still not being seriously considered. Despite the insufficient consideration of social, political and institutional aspects, there is recognition that PSIA research methodology has often been sophisticated.

<sup>10</sup> The Mali PSIA on cotton as of August 2005 was still not available from the World Bank.

<sup>11</sup> Speech at launch of PSIA TIPS Sourcebook, Paris, June 15th 2005

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**"I know two of the studies, which I consider to be very technical, lacking in participatory focus and lacking in a deeper analysis of the relationship between poverty and politics"**  
Maite Matheu, Oxfam GB, Honduras

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The Centre for Analysis and Forecast, Vietnam remarked that PSIA is "done quite rigorously," and in Ghana the methodology was seen to be an improvement on previous studies: "the methodology was new, (...) comprehensive and evidence-based and went beyond the literature review and desk studies that have been conducted in the past by including views of beneficiaries of service provision" (Azeem, 2005).

The lack of multidisciplinary teams has surely contributed to weak social, institutional and political analysis in the studies themselves. No social analysis was carried out in the Vietnam SOE PSIA which was based predominantly on economic analysis and quantitative data. Additionally there has not been enough attention paid to social and poverty issues in the PSIA on WTO accession. Other ongoing analysis on WTO accession in Vietnam is "concerned with the possible impact on sector production levels and does not extend to considering the potentially large poverty and social impacts on producers and consumers (Hague, 2005). In Nicaragua the study on the impact of CAFTA on agriculture also has a strong economic focus that does not take into account the "interrelationship between commercial policies, the agrarian structure, actors' strategies, markets, institutions and agrarian policies, particularly important when examining the complexities of rural development" (Acevedo and Peralta, 2005).

The Malian study on cotton reform focuses primarily on the trade-offs between government subsidies of cotton versus spending on education. This includes an analysis of the

viability for different groups of cotton producers to continue to produce cotton based on various pricing scenarios. While there would seem to be good analysis of the differences that exist between groups of cotton farmers, the study does not appear to consider the institutional and social factors surrounding cotton farming in Mali. An example of such is the incentive to start or continue cotton production as it is one of the few means of accessing credit for other activities. Nor does the study seem to take into account the effect of the artificially low world cotton prices in its analysis of the viability of Malians continuing activity in this sector.

## Conclusion

The recognition of the need to go beyond economic blueprints has led to more context-specific country analysis by the IFIs. However donors still need to do much more to ensure that their lending programmes are informed by alternative policy options and not just minor changes or mitigating measures for predetermined policy designs. Linking research to policy also requires that PSIA commissioners better consider timing issues surrounding the reform agenda in order for analysis to be useful to policymakers. Finally the political, social and institutional factors that influence and are influenced by policy reforms need to be better taken into account. A new DFID-World Bank sourcebook on institutional, social and political analysis could help ensure that these factors take a more central position in PSIA research.

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## 4 PSIA's and policymaking – an open process?

**"We have always believed around here that if you really want to encourage reform it is the way you do the studies that makes a big difference"**

Professor Haidari Amani, Economic and Social Research Foundation, Tanzania

**"Governments are being urged, in effect, to adopt, 'as their own' policies introduced by outside agencies – without real policy autonomy in designing home-grown strategies. If there is reluctance to do so, or a lack of enthusiasm in the process, donors should not be surprised"**

Terry McKinley, UNDP

It is widely accepted that policymaking is a messy procedure and that there is no linear relationship between the generation of

evidence and its use in policy processes. The uptake of evidence in policymaking is not straightforward and depends partly on the trust shown by the various players. However a consensus seems to exist on the importance of involving stakeholders in the creation of research, the importance of linkages between researchers and policymakers, and the need for clear communication strategies to improve impact.<sup>12</sup> Evidence is much more likely to be utilised in policymaking if it is created through national structures and institutions in a participative and transparent manner that encourages public debate and the mobilisation of different groups for change.

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<sup>12</sup> See research from the ESRC Network for Evidence Based Policy and Practice at: [www.evidencenetwork.org](http://www.evidencenetwork.org) and ODI's Research in Policy and Development programme at: [www.odi.org.uk/RAPID/](http://www.odi.org.uk/RAPID/)