

A PRACTICAL GUIDE TO STRATEGIC IMPACT ASSESSMENT FOR ENTERPRISE DEVELOPMENT (1)

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1. INTRODUCTION

The focus of this paper is on assessing the impact of enterprise development policy interventions on the goal of poverty reduction. In recent years there has been a growing consensus in development thinking on a number of core ideas – the importance of policy level analysis, the need to move to a more evidence-based approach to decision making, and the adoption of poverty reduction as the fundamental goal of development policy. The paper combines these core themes, and provides a methodological framework for assessing the poverty impact of strategic level interventions for enterprise development. It also offers a guide to the tools and techniques that can be used in applying the SIA approach. These are intended to provide policy makers and other practitioners with a practical and cost effective approach to the design and implementation of enterprise development policy initiatives aimed at poverty reduction in developing countries.

There are five sections to the paper. This introduction is followed by a overview of strategic impact assessment in section 2, and a review of the methodology in section 3. Section 4 gives details of impact assessment techniques, and section 5 presents the conclusions.

2. STRATEGIC IMPACT ASSESSMENT (SIA)

2.1 SIA and ‘Scaling Up’

Strategic- level impact assessments of different kinds are now being much more widely applied than in the past, with the aim of improving the quality of policy design and the effectiveness of their implementation. There is growing use of SIA to assess the economic, social and environmental impacts of trade policy in developing countries (Kirkpatrick and George (2003). Also, with the increasing acknowledgement of the need for effective regulatory measures in newly liberalised market economies, strategic impact assessment of regulatory measures is beginning to be adopted in a growing number of developing countries Kirkpatrick and Parker (2003).

The current interest in SIA represents a practical response to the new approach to development strategy and policy which has become known as ‘scaling up’ (Picciotto, 2002, Stern 2002). Scaling up is an elusive and evolving concept which embraces a range of ideas, all of which are concerned

with extending the boundaries of development strategy. The following components of 'scaling up' are incorporated in SIA:

- Measurement

The adoption of targets such as the Millennium Development Goals has highlighted the importance of measurement in development policy (Stern2002). Measurement, or assessment, serves a number of related purposes. First, *ex ante* assessment provides an evidence-base for better policy formulation and implementation. Second, *ex post* assessment serves as an instrument for monitoring progress and measuring performance. More generally, it contributes to learning and understanding of what works and why, and in this way contributes to more effective policy. Third, assessment can be an instrument for accountability to stakeholders.

Assessment creates the need for indicators, and there is an ongoing debate on the choice of target indicators and measurement techniques. The use of quantitative and qualitative techniques in assessing impacts, the particular indicators to be used, and the relative weight to be attached to each indicator, are strongly contested issues among researchers and practitioners.

- Integrated Development

The Rio Summit firmly established the concept of sustainable development strategy as comprising economic, social and environmental components. Practice has largely failed, however, in combining these three 'pillars' of sustainable development into an integrated, holistic approach to development policy. Instead, economic, social and environmental policies have been formulated and applied in separation from each other with little attempt to exploit the synergies or mitigate the potential trade offs between the three components of sustainable development.

Interest in developing a methodology for measuring the impact of development policies on sustainable development has increased in recent years. The application of separate forms of economic, social and environmental assessment at the project level has been practiced for many years, and the application of these forms of assessment at the strategic (policy) level has also increased in recent years. Strategic impact assessment which accords the same level of consideration to economic, social and environmental impacts (sustainability impact assessment) is now beginning to be adopted at the international and national level of decision making as a means of measuring the potential or actual impact of development policies and strategic interventions on sustainable development.

The notion of integration applies not only to methods of assessment, but also to policy and decision making processes. It is increasingly recognized that policy makers need to ensure that their policies are consistent with each other and with the goal of sustainable development. Achieving greater policy coherence requires efforts to improve the integration of policies across all levels of government. This will often involve fundamental changes in the institutional and organisational structures of government, if effective results-based public management processes are to become permanently embedded in governance structures (ODI, 2003).

- Ownership

There is widespread agreement on the need for national strategic planning processes to be country-owned. Lack of national ownership and commitment has been seen as a major factor contributing to the 'failure' of development assistance programmes. The principle of national ownership implies that the component processes and targets should be based on a country's own perceptions of what constitutes its national strategy for sustainable development (McGee and Norton, 2001). However, even when the development strategy is nationally led, it may not become embedded in actual implementation processes if there is insufficient political commitment to it at those levels of government which are influential in effecting (or blocking) change (McCourt, 2003). Ownership also needs to extend beyond government and include the other national stakeholders. The involvement of non governmental stakeholders in strategic planning strengthens the planning process by building broad legitimacy for the process, by engaging with partners whose support will be needed for effective implementation, and by widening the range of skills, information and understanding available for formulating and implementing the strategy. The level of participation that is possible and appropriate will be determined at the country level, in the light of the particular configuration of actors at national and local level, their various capacities to engage in participation, and the degree to which the country's political and social context is conducive to civil society engagement with government (McGee and Norton, 2001). In practice, however, there may be a tension between government ownership and non government stakeholder participation, and 'government 'ownership' of a strategy must not be too strong in relation to civil society and private sector stakeholders' (Dalal-Clayton and Bass 2002). This implies that, while the process should be country-led, it must not be government-led. This shifts the emphasis away from direct reform of a country's development decision-making mechanisms, driven by the country's own government with international assistance where required, to an agency-sponsored multi-stakeholder learning process, involving government but not driven by it, whose aim is to influence those mechanisms.

2.2 Ex Ante and Ex Post SIA

An important distinction is to be drawn between ex-ante appraisal and ex-post evaluation in SIA, since they serve different purposes and are different in character. However, when they are applied in a consistent and coordinated manner, they should be mutually reinforcing in enhancing the performance of enterprise development measures.

Appraisal involves assessing the likely impacts of a proposed measure before its approval and implementation. It should be closely coordinated with the planning of the proposed measure and influence its evolution. Negative as well as positive, impacts should be assessed and be used in shaping modifications to the proposal to enhance its potential performance. Proposals, which specify ex-post evaluation requirements and arrangements for the collection of data needed for this purpose, should be incorporated into the

final version of any proposal for the approval and implementation of the measure Goodland and Mercier, 1999)

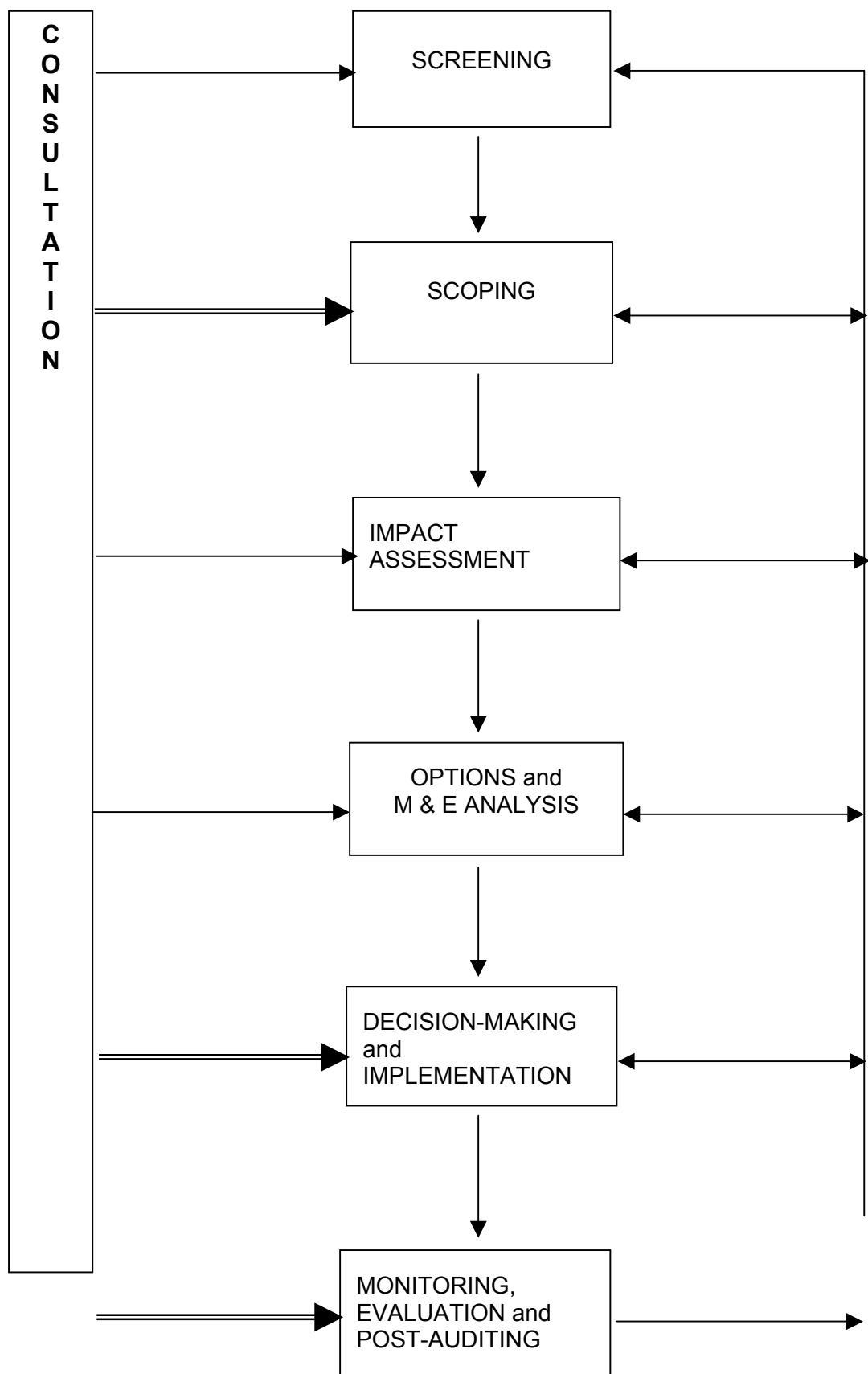
Evaluation involves assessing the actual impacts which result from the implementation of the proposed measure. The evaluation findings may be used for a variety of purposes including, assessing whether the actual impacts are consistent with the goals that have been set for the measure, assessing whether the actual impacts are consistent with the impacts predicted in the appraisal, and assessing whether the impacts resulting from projects implemented within the framework of the policy or strategy are consistent with those predicted in the policy appraisal. This is an important test of the consistency between project appraisal and implementation and strategic appraisal, especially where responsibility for project implementation is decentralized and undertaken by different authorities.

3. THE STRATEGIC IMPACT ASSESSMENT PROCESS

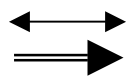
The effectiveness of SIA, when applied to policies for enterprise development, will depend as much on the effectiveness of its assessment process as it will on the quality of the data, assessment methods and analysis which it uses (Lee and George, 2000). The specific features of the process need to vary according to the particular context in which it is to be applied. This requires consideration of its cultural, political and socio-economic characteristics as well as of its existing legal and institutional arrangements. However, the general features of an effective SIA process are broadly similar and this section of the paper is mainly concerned with these.

The general structure of the SIA process is shown in Figure 1, which also indicates the linear and cyclic relationships that may exist between its main components.

Figure 1: Stages in the SIA process for ED policies



Key



linear and feedback linkages in the SIA process
stages in the assessment process where consultation is particularly desirable

Screening

Screening is undertaken to determine which measures require an assessment and which do not. It should be undertaken at as early a stage as possible. Where an assessment is shown to be needed, screening may also determine the general type and level of detail of the assessment, which is required (e.g. by distinguishing where 'simplified' and 'full' assessments may be needed). Simple lists, which categorise proposed interventions according to whether they require a 'full', 'simplified' or 'no' SIA, may be used. Only those policy interventions with the potential for major and/or complex impacts will require a full assessment. In common with other stages in the assessment process, screening should assist in ensuring that assessment resources are used cost-effectively.

Scoping

Scoping is undertaken, after screening, during the early stages of policy preparation, in all of those cases where an SIA is required. Its purpose is to determine the terms of reference for the impact assessment, which is to be undertaken, taking into consideration, where relevant, whether a 'simplified' or 'full' assessment is required. In the case of a 'full' assessment, the scoping study might be expected to cover the following:

- The 'problem', which the proposed policy intervention is addressing, the goals/targets that it is expected to meet, and the alternative forms which it might take.
- The types of impacts to be assessed, the causal determinants to be investigated and the level of detail to which each may need to be examined.
- The types of additional mitigating and enhancing (M&E) measures which might be investigated to deal with any remaining potentially significant problems and/or to enhance its potential beneficial effects
- The types of data that will be needed for the assessment, the types of assessment methods to be used and the consultations which will be undertaken during the assessment process.

In the case of 'simplified' assessments, the scoping stage in the process will be brief and, in some instances, partly covered during the screening stage. In the case of full assessments, although more substantial, they are still required to be cost-effective. Each assessment should focus upon those significant impacts that are relevant for decision-making purposes and use the most cost-effective data gathering and assessment methods. It should also alert, at an early stage, those responsible for the policy preparation to any potential problems which can then be taken into account in its subsequent planning, thereby avoiding possible delays and unnecessary costs later.

The early identification and specification of alternative interventions is an important, creative exercise in the assessment process. It is undertaken at a stage in the process where new kinds of enterprise development measures, and novel combinations of measures, might be identified for appraisal.

Impact Assessment

Assuming all of the scoping tasks described above have been satisfactorily performed, the work plan for the impact assessment (whether 'simplified' or 'full') and how it is to be carried out, should be well-defined by the time this stage commences. It should also have been decided, in the case of a 'simplified' appraisal, whether this is to be undertaken entirely 'in house' and, in the case of a 'full' assessment, whether some external assistance is to be used.

The main product of this stage in the assessment process should be an estimate (quantitative, or qualitative where the former is not feasible or appropriate) of the likely significant impacts for each alternative policy that has been investigated. It is important that equal consideration is given to the estimation of positive and negative impacts; otherwise the assessment will become unbalanced and promotional in character. The assessment should cover relevant economic, social and environmental impacts which relate to the goal of poverty reduction, and should be assessed according to different future scenarios and over different time periods (short, intermediate and long-term).

Options and M&E Analysis

This stage in the assessment process partially overlaps the previous stage. Initially, at the impact assessment stage, all alternatives selected at the scoping stage will be submitted to a preliminary assessment. Then, on the basis of an options analysis, certain of these will be eliminated and only those that remain will be subject to a fuller assessment. Similarly, the specification of some of the remaining alternatives may be modified, by incorporating particular mitigation and enhancement (M and E) measures, before the fuller assessments are carried out and a final options analysis is undertaken. This exemplifies the dynamic, rather than simple linear, nature of the assessment process (see Figure 1).

Decision-making and Implementation

The findings of the options and mitigation analyses, and the supporting impact assessments from which these are derived, provide the information base (together with the findings of consultations based on these) for decision-makers to determine which option, and its accompanying M&E measures, is to be selected for implementation. This decision should also incorporate any requirements relating to how:

- subsequent actions (e.g. lower-level programmes and projects) should be planned, appraised and implemented;

- the policy's implementation should be monitored and evaluated; and
- the SIA which has been used, in making this decision, is to be post-audited.

Thus, when this decision is made, it provides a vital link, between assessment at the approval and evaluation stages.

Monitoring, Evaluation and Post-auditing

A distinction is to be drawn between the monitoring and evaluation of individual policy implementation and the monitoring, evaluation and post-auditing of the implementation of the strategic programme of policy initiatives for enterprise development as a whole. In the former case, the purpose of monitoring and evaluation is to check whether individual policy measures are being implemented satisfactorily and are having their desired effects in achieving their short-term, intermediate and long-term goals. Where they are not, additional remedial measures should be identified, appraised, approved and implemented.

In the latter case, the purpose of monitoring is to check whether the strategic impact assessment system itself, as applied to enterprise development interventions is working satisfactorily. It seeks answers to such questions as:

- Does the post-auditing of a sample of SIAs confirm or not that the types, size and significance of impacts predicted to occur have resulted or are there important discrepancies? If there are significant discrepancies, their causes should be identified and remedies proposed to strengthen future assessment practice.
- Is there clear evidence that the SIA appraisal and evaluation systems are having their intended influence on decision-making and implementation? If not, proposals should be formulated to strengthen the integration of SIA into the planning, decision-making and implementation process.
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In summary, SIA system monitoring, evaluation and post-auditing provides an inbuilt mechanism to strengthen future SIA practice and to integrate it more fully in policy preparation, approval and implementation.

Consultation

Stakeholder consultation is an important component in any SIA system of the type that is being considered in this paper. Its role is multi-functional and may contribute to different stages in the SIA process. This may include: providing guidance when determining the scope of an assessment; providing information and expertise which assists in undertaking an assessment; reviewing and commenting upon an assessment; supporting the use of the assessment's findings in decision-making and implementation; and contributing to monitoring, evaluation and post-auditing.

The arrangements made for stakeholder consultation may vary considerably according to the type and scale of the policy intervention being assessed; the cultural, political and institutional context in which this is taking place, and the stage/s in the assessment process in which it is being used. At the strategic-level of assessment, stakeholders mainly participate through organisational representatives rather than on an individual basis, though there are exceptions to this. Generalisation is difficult but the following basic provisions are, in principle, desirable:

- Some form of stakeholder consultation is desirable at a relatively early stage in the SIA process. Typically, this would be at the screening/scoping stage where consultees should have the opportunity to contribute to the determination of the scope of the assessment and to comment upon the content of the scoping report itself. Participants should preferably include representatives of relevant government departments, representatives of other donors also supporting enterprise development in the recipient country, and NGO representatives (including, in particular, SME associations in the recipient country). For these consultations to be credible and effective, the scoping report should be publicly available, subject only to substantive confidentiality restrictions.
- A second stage in the SIA process, where consultation would be desirable and appropriate, is when the full assessment, incorporating the options analysis and M&E analysis, has been completed but before any decisions on the approval of the proposed measure have been taken. The full assessment report should be publicly available, subject to the same confidentiality condition, as mentioned above.
- A third stage, where consultation is desirable, is where both specific and system evaluation reports are being completed and proposals for improvements, based on these, are being made. These reports should, in principle, also be made available. As in the two previously described stages, it is desirable that a written record is made of the consultation findings for submission to the decision-making authority, prior to decisions being taken and for this record to be publicly available.

4. IMPACT ASSESSMENT

The purpose of this section is to provide guidance on the impact assessment stage of the SIA methodology, by reviewing the assessment tools and methods which can be used in undertaking SIAs of enterprise development policy interventions.

Individual donor agencies and multilateral agencies such as the World Bank, are engaged in an ongoing process of developing and disseminating new assessment approaches in response to changes in international development goals and the shift in emphasis from project-level to strategic-level assessment. While there is a growing number of techniques and tools available, there is no single 'best practice' approach or methodological

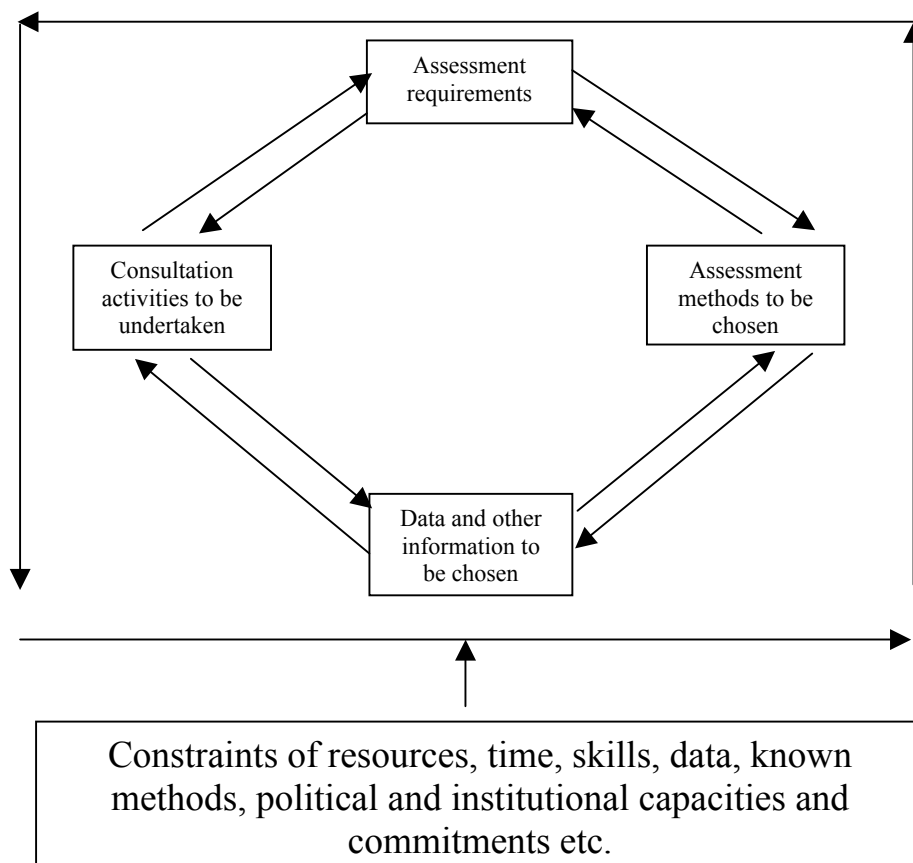
template for SIA. Analysts will typically have to address constraints in terms of data, tools, capacity and time. Also, the assessment needs to be appropriate to the country's institutional, political and economic context. A 'one size fits all' approach should be avoided and the combination of methods, data, and consultations will need to be case-specific.

The methodology package that is proposed in this paper has four components:

- Definition of the assessment requirements
- Choice of assessment methods
- Assembly of data
- Arrangement of consultation methods

As illustrated in Figure 2 below each of the four components in the assessment methodology cycle – definition of assessment requirements, choice of assessment methods, assembly of data and other information, arrangement of consultative activities – have to be consistent with each other. For example, if there is insufficient data available, the choice of assessment methods may need to be modified and the assessment requirements may need to be more modestly defined. The specification of all of the components within the assessment method cycle is constrained by the resources, skills, methods, data, political and institutional capacities and commitments etc. which exist. The more restrictive these are, the more modest will be the practical assessment methodology which can be chosen. Therefore, the methodology package – the preferred combination of methods, data and consultations – is likely to be case-specific.

Figure 2 The Assessment Methodology Cycle



The composition of the assessment methods used, and the level of detail at which they are applied should differ between preliminary assessments and detailed assessments. In the former situation, there is a greater reliance on simple forms of analysis than is expected in detailed assessments. In the latter case, there is scope for more detailed, quantitative analysis. However, it is important to recognise the limits of both what is *needed* and what is *achievable* in SIA assessments. This is reflected in the commentary and advice which follows on each of the four components of the assessment methodology cycle.

4.1 Assessment Requirements

This component includes the specification of the policy options for enterprise development that are to be assessed; the poverty impact indicators to be used in the SIA; and the significance criteria to be used.

- Policy Options

Enterprise development measures may be defined as actions taken to promote the contribution of enterprises (in the private or public sector) to meeting specified development goals. The general case for supporting business enterprises in developing countries is often based on the following:

- Enterprise development is the main engine of economic development, which is, in turn, an important instrument in realising a wide range of other development goals.
- Enterprise development has been inhibited in fully playing its development role due to market and regulatory failures. These, it is claimed, have particularly disadvantaged small and medium-sized indigenous enterprises and those employed in them.
- Where poverty reduction is a primary goal, the case for supporting enterprises will depend primarily upon their direct and indirect contribution to poverty reduction,

DFID's Enterprise Development Strategy (DFID, 2000) illustrates this line of thinking. First, it draws attention to the 'formidable constraints in developing countries to enterprise formation and expansion'. Four types of constraint are highlighted:

- An unfavourable policy, legal and regulatory environment for enterprise – due in many developing countries to a heritage of heavy state intervention, outdated laws, excessive regulation and discrimination against micro-enterprise.
- Lack of appropriate financial services – particularly for poor families and micro-entrepreneurs through stronger and more extensive micro-finance institutions with stronger links to the commercial banks and mainstream capital markets.
- Shortage of management skill and business development services – the private sector is in need of better access to effective training in

management systems, production and distribution technologies, marketing technology and market research.

- Insufficient market knowledge, poor communication and institutional linkages among small enterprises – there is a need for better transport and communication facilities, access to trade publications etc., and to strengthen institutional linkages and partnerships between large and medium-sized enterprises and small enterprises.

Then, the Strategy indicates the main forms of support to be provided in order to address these constraints (see Box 1).

Box 1 Three main types of Enterprise Development intervention

1. Improving the legal and regulatory enabling environment for enterprise (at all levels)

Raise public awareness of the economic importance of micro-enterprises; engage public and private sectors to create better, pro-poor enterprise policy; simplify and improve business regulation, licensing and other legal requirements.

2. Developing financial markets, institutions and instruments to support enterprise growth (particularly for micro, small and medium scale enterprise)

Strengthen retail capacity of micro-finance institutions by: further development of financial sustainable savings, credit, leasing and insurance services that reach more clients, and advance the institutions providing these services towards full commercial viability; deepen penetration by mainstream capital markets to micro-finance institutions and small and medium scale enterprises; encourage the use by donors of non-grant-based support mechanisms (which minimise subsidy and market distortion) such as convertible loans, guarantees, asset leasing and equity instruments).

3. Addressing constraints in management, technologies and market knowledge (for small and medium scale enterprise)

Strengthen management and business development services by: strengthening governance and leadership; financial management; production and distribution methods and technologies; and research. Help to create a better-trained workforce.

Improve market knowledge, communication and institutional linkages by: integrating larger enterprises vertically with smaller enterprises; deepening market activity, trade, and knowledge from big business down to small enterprise (e.g. involving e-commerce and new information and communication technology).

Source: DFID Enterprise Development Strategy (2000a) – Executive Summary.

A list of policy measures for promoting enterprise development will be the starting point for the assessment. Ideally, a number of policy options should

be assessed. But in practice it may be necessary to limit the assessment to a single policy proposal.

- Impact Indicators

The goals of each enterprise development policy need to be carefully defined at the outset and should be translated into more specific targets (short-term, intermediate and long-term) as the assessment progresses. Targets play a key role when formulating the appraisal and evaluation criteria by which each policy is to be assessed. Many goals are multi-dimensional and will need to be represented by multiple targets.

Target (core) indicators are used in assessing final impact in terms of the goals for the policy intervention. The target indicators are different from intermediate indicators which relate to the casual chain effects (see below) which occur during the process of change between the policy intervention and the final impact on the target indicators. The target indicator measures that are used in practice will be determined on the basis of the availability and quality of the measurement data that are available. An assessment may need to be made of the degree of consistency between the definition and meaning of the target indicators, and the actual measure of It which is to be used.

The measurement of impact in terms of target indicators is likely to involve a combination of both quantitative and qualitative information. This is illustrated in Box 2, which summarises the derivation of indicators and measurement techniques for evaluating the impact of different policies on poverty.

Box 2. Indicators for impact quantification at the macro level			
The following table summarises the DFID approach to defining indicators for macro-level monitoring of pro-poor development, and the data gathering methods through which they may be verified. The table is from DFID's framework paper on economic policy, <i>Making Markets Work Better for the Poor DFID (2000b)</i> .			
Pro-poor market development: examples of monitoring indicators			
Market Characteristic	Domain of intervention or collective action	Indicators of pro-poor change	Means of verification
Enabling framework	Economic policy	Extent of inflation. Capital subsidies displacing labour. Wages as percentage of GDP.	Economic surveys. Economic reviews.

	Law and Administration	Integrity, accessibility and representativeness of judicial system. Property rights.	Civil service reform programmes. Analyses of legal systems.
	Political and social culture, governance	Democratic accountability of representatives. Extent of male-dominated institutions.	Governance analysis. Gender analyses.
	International markets	Open access to developing country products. Instability of capital flows.	OECD reviews of key markets IMF.
Market failure	Public goods	Adequacy of infrastructure. Lawlessness, insecurity.	Sector reviews.
	Externalities	Pollution of natural resources	Environmental situation analyses
	Market power, monopoly	Degree of competition. Land ownership concentration.	Sector reviews. Land records.
	Information asymmetry	Education on citizens' rights. Legislation on product description Quality of agro-chemicals	Curricula; reports on public campaigns. Fertiliser, etc., studies.
	Transactions cost	Contract enforcement mechanisms. Barriers to formal financial sectors.	Legal reviews. Financial sector studies.
Adverse power relations, exclusion	Regulations anti-poor, anti-women, ethnic bias	Female property rights limited, inheritance laws Law favours formal enterprises	Gender analyses. Sector, legal reviews.
	Organisational bias	Gender awareness in service providers. Unionisation.	Gender analysis.
	Social relations link to markets	Bonded labour obligations inherited. Intra-household control of cash sales	Social surveys. Household, gender studies.
	Market segmentation	Barriers to accessing formal credit. Barriers to formal labour markets.	Sector studies.

Inter-market linkages	Risk management	Facilities for savings. Accessibility of insurance mechanisms.	Sector and client surveys.
	Linked markets	Means for transmitting migrant remittances Extent to which credit market failures limit labour markets	Economic reviews. Special studies, Sector surveys.

Many of the reviews and surveys listed in the last column of the table in Box 2 are likely to require the gathering and analysis of both qualitative and quantitative information.

One of the main purposes of SIA is to support better decision making relating to policy choices for enterprise development that will contribute to the goal of poverty reduction. The choice of indicators should be guided therefore by the following criteria:

- They should be limited in total number but, in aggregate they should be comprehensive in their coverage of the goal of poverty reduction
- They should be balanced in their coverage
- They should focus on key components of concern to decision makers and stakeholders

- Significance Criteria

The purpose of the SIA is to provide decision makers with information on the likely significance of the impact of the proposed policy measure on poverty reduction. This requires some form of measurement for the target indicators. In economic analysis, this is provided by attaching an economic value to all positive (benefits) negative (costs) impacts, which can be aggregated into a single measure of net economic benefit. But it is seldom possible to value all impacts in economic terms, and different impacts will be valued or measured in a variety of different ways, which cannot be aggregated into a single unit of measurement. It then becomes necessary to use some form of scoring or ranking criteria which can be applied to impact estimates that have been assessed using different units of measurement.

One possible scoring system is shown in table 1, where a three point scale is used to record the significance of the target indicator impacts.

Reference to the supporting evidence on which the scores are based should be included in the summary of impacts.

Table 1 Significance Criteria and Scoring

Significance criteria

- extent of existing economic, social and environmental stress, in affected areas
- direction of changes to base-line conditions
- nature, order of magnitude, geographic extent and reversibility / duration of changes
- regulatory and institutional capacity to implement M and E measures

Scoring

0 = non-significant impact compared with the base situation

1 = lesser significant impact (marginally significant, by itself, to the negotiation decision but, if impact is negative, also a potential candidate for mitigation)

2 = greater significant impact (likely to be significant, by itself, to the negotiation decision. If negative, merits serious consideration for mitigation)

+ = positive impact

± = positive and negative impacts likely to be experienced – net effect is uncertain and/or varies according to context

-/+ = negative over an initial (specified) period of time but expected to become positive in the longer term. The length of short and long time periods should be specified (and, where appropriate, standardised) for this purpose.

4.2 Assessment Methods

This section provides guidance on the methods and techniques that can be used to assess impacts, in terms of the target indicators. The first part will describe the causal chain analysis approach which can be used to order and present the assessment evidence in a systematic manner. This is followed by a description of various quantitative and qualitative techniques for impact estimation. The objective will be to provide a non-technical guide to these techniques, an understanding of the circumstances in which they can be deployed, and an appreciation of their limitations. Guidance will also be given to sources of more detailed discussion of the techniques.

• **4.2.1 Causal Chain Analysis**

The fundamental purpose of causal chain analysis (CCA) is to identify the significant cause-effect links between a proposed policy change and its eventual impacts (i.e. its impact on the goal of poverty reduction). The CCA concept has existed for many decades, though often called by different names. For example, it is described in the 1970s and 1980s assessment literature as network analysis and cause-effect analysis. It is most useful in identifying and analysing multiple effects within large, complex systems. CCA can be used at different levels of aggregation and detail, depending on the context and requirements of the situation. It can also be used at different stages in the SIA process. It is typically supported by other, more specialised, assessment tools for analysing, modelling, predicting changes on different sections of the causal chain (see Below). The aim of CCA is to distinguish the *significant* cause-effect links in the chain. Significance criteria have to be formulated and then used to eliminate non-significant sections and terminate further analysis beyond these sections. The analysis is usually undertaken, in logical sequence by section, from 'cause' to 'effect'. However, a useful cross-check can be undertaken by reversing the analysis (i.e. sequentially, by section, from 'effect' to 'cause') to ensure that the projected impacts are sufficiently 'explained' by the policy change. Both the causal chain analysis itself, and the causal chain analysis findings, may be presented in the form of a causal chain diagram (sometimes called a cause-effect diagram). This shows each of the cause-effect sections which has been investigated (plus some sub-sections, in more detailed diagrams) in their logical order of causality, distinguishing those that are significant from those that are not.

The causal chain analysis of a single policy can be extended and considered in a broader context, in two senses:

- The single agreement may form part of a more comprehensive set of policies which together represent a development strategy. The current focus on Poverty Reduction Strategy Papers highlights this comprehensive approach to policy. In this case, it is the aggregate economic, environmental and social impacts of the strategy as a whole which is likely to be the over-riding consideration. This suggests that a comprehensive SIA of the poverty reduction strategy should be based on an aggregate CCA incorporating cause-effect linkages between all of its constituent agreements. This should be initiated at the scoping stage when the main cause-effect inter-relationships between the constituent policies and their significance for the strategy as a whole, should be established. This information should be used in shaping the scope and methods of appraisal for the strategy as a whole, as well as for its constituent policies. These inter-relationships can then be reflected, to some degree, in the full assessments of the individual policies as each of these proceeds.
- The impact of a policy measure on poverty reduction may be indirect. Significant impacts can occur, for example, as a result of an increased level of economic activity and economic growth which 'trickles down' in gains to the poor. Similarly, the policy measure may 'trigger' impacts that are not directly caused by it. This may be due to other regulatory and

market failures, institutional weaknesses, political instability etc. in other areas.

- **4.2.2 Tools and Techniques**

A wide range of assessment methods and approaches have been used by researchers and analysts in the empirical elaboration of causal chains and estimation of impacts. Surveys of these methods and experience with their application in poverty impact assessment have confirmed that there is no single technique or method which can satisfactorily meet all the assessment requirements for SIA studies (World Bank 2003; McCulloch, Winters and Cirera 2001). A package of methods is most likely to be required, where each package varies to some degree, according to the characteristics of the policy being assessed, the country context in which it is being carried out, the availability and quality of data, and the time and other resource constraints on the study. This sub-section reviews the strengths, limitations and possible applications of the main methods that can be used in applying the causal chain analysis.

The different approaches to impact estimation can be classified in two broad categories:

- Descriptive Methods
- Modelling Methods

Descriptive Methods

This group of methods is less well defined than the other two approaches and is probably the most heterogeneous. The methods are mainly empirical and make use of both quantitative and qualitative data. They involve the collection and analysis of ex post information on particular policy intervention, the way in which it has been implemented and the changes in welfare of different groups and /or sectors in the country concerned. From this information such studies try to construct a plausible explanation of the extent to which the policy intervention has been responsible for the observed changes in the target indicators.

These types of studies are potentially useful to SIAs in a number of ways. They often consider different types of questions, at less aggregated levels of assessment, using different methods of investigation to those mainly used in modelling and statistical estimation. At their best, they can show a deeper understanding of the ways in which policy measures may have greatly varying poverty impacts.

A difficulty with descriptive studies is that their methodology is often insufficiently developed or explained. For the most part they do not sufficiently examine the causal chains which link the trade measure to its eventual impacts. Typically, some form of 'before/after' or 'with/ without' control group analysis is used. The former suffers from the problem of ignoring the counter-factual question and failing to take account of the impacts

that would have occurred even if the new measure had not been introduced. The problem with the control group approach is the conditions between the control group and the sample group are insufficiently similar to allow inferences about the impact of the policy measure to be drawn. Additionally, there are sometimes uncertainties (as in other studies) over precisely what data have been used, their levels of reliability and how they have been analysed and interpreted in reaching conclusions.

However, there is an increasing number of empirically based, more disaggregated studies being produced which address a number of these difficulties. Some, for example, carefully use inductive methods for investigation, which are rooted in an explicit, well-defined methodology, to develop a rich understanding of cause-effect relationships, and assemble different kinds of good quality information to assess policy impacts on local communities, disadvantaged groups etc. Others use a combination of descriptive cause-effect analysis (possibly then formalised in a simple model) and some statistical estimation analyses to provide a combined quantitative and qualitative analysis of impacts on a local or regional area. Additionally, there have been a number of regulatory-based impact studies which have contributed to the impact assessment of rule changes which are part of a development strategy (Kirkpatrick and Parker 2003)

It is recommended that selective use is made of descriptive methods of impact assessment within SIA studies. They could be particularly helpful in understanding the variations in impacts at more disaggregated levels – sector, area and socio-economic group – and especially, where more qualitative assessments are appropriate.

Expert opinion is the least formalised and sophisticated descriptive approach, but is frequently used in qualitative analysis. Due to resource and time limitations it is often not possible to commission a programme of new descriptive studies but more limited arrangements for some gap-filling may be feasible, with the aid of local experts. It is likely to be important in SIA studies for the following reasons:

- There is no standard SIA methodology which is applicable in all circumstances. It has to be 'tailor-made' for, and 'case specific' to, each assessment situation. Expert opinion will need to play a significant role in the development of the 'case specific' methodology, through the screening and scoping updates and consultation based on these.
- There is no comprehensive SIA methodology in being which is yet fully operational. It has to be welded together from a number of different parts. Expert opinion, with other forms of supporting assistance, will need to play a central role in making this fusion work.
- There are many gaps in method, knowledge and data within the components which will form the comprehensive SIA methodology. This is not surprising in a new and innovative field of assessment. Only to a limited degree, can these gaps be filled through additional research, data

gathering and new empirical studies. In most cases, the approach should be to draw on expert opinion, to make most effective use of the methods, knowledge and data already available. However, where expert opinions are used, it is important that the evidence and analysis upon which they are based are made explicit. In other words, they should be substantiated and justified.

Box 3 provides further guidance to sources of information on the methods and techniques that can be used for descriptive approaches to impact assessment.

Box 3 Descriptive Methods and Techniques for Impact Assessment

Stakeholder Analysis

www.worldbank.org/participation/

The World Bank's Participation and CivicEngagement Group promotes methods and approaches that encourage stakeholders, especially the poor, participate in priority setting, policy making, resource allocations and access to public goods and services.

www.fao.org/participation/

This is the website of the Informal Working Group on Participatory Approaches and Methods to Support Sustainable Livelihoods and Food Security (IWG-PA) of the World Food Organisation (FAO). Look under Field Tools

www.eldis.org/participation/pme/index.htm

The eldis participatory monitoring and evaluation site offers background information, links to methods, tools and manuals

Case Studies

www.enterprise-impact.org.uk/informationresources/casestudies.shtml

Tool Boxes

www.enterprise-impact.org.uk/informationresources/toolbox.shtml

<http://Inweb18.worldbank.org/ESSD/sdvext.nsf/81ByDocName/ToolsandMethods>

Both the above links provide access to assessment 'tool boxes' containing guidance on a variety of methods. The first focuses on qualitative methods and the second on quantitative methods.

Social Impact Analysis

<http://Inweb18.worldbank.org/ESSD/sdvext/81ByDocName/povertySocialImpactAnalysis>

The World Bank's Poverty and Social Impact Analysis site was conceived as a forum for interaction and a tool for disseminating experience. The PSIA user's Guide is available here as are links to tools and techniques.

Modelling Approaches

Modelling approaches are mainly economic in character, and use economic analysis to construct a theoretical model of the linkages between the policy change and its impact on the policy goal. The parameters of the models are often derived from empirical analysis of real data and the 'accuracy' of the models can be tested by using the model to replicate the empirical data for a previous period. The models are used for ex ante assessment, by predicting the impact of a hypothetical policy change on the target indicators. The advantage of modelling is that it provides an explicit theoretical explanation of the causal chain linkages. The assumptions as to the causal linkages can be changed in order to test the robustness of the results predicted by the model. Modelling also has a number of well known limitations:

- in the absence of sufficient empirical reference points, the underlying assumptions and predictions of the model may be too general for use in context specific SIA studies
- most models are restricted to predicting the aggregate impact on economic welfare. Current research is focussing on developing models which integrate macroeconomic analysis with disaggregated household analysis, so as to allow for the modelling of the distributional and poverty impacts of policy. But this research is still confronted by the fundamental difficulty of establishing satisfactory linkages between micro and macro analysis.
- because of the complexity of the systems involved, and known limitations in the data availability, existing models, although appearing very complex to the layman, are greatly simplified to make them operational. It is important therefore to check the underlying logic of the model itself (i.e. its assumed cause-effect links) and the assumed values (coefficients) of those linkages.

Box 4 Modelling Approaches to Impact Assessment

<http://lnweb18.worldbank.org/ESSD/sdvext.nsf/81ByDocName/ToolsandMethods>

This World Bank site on Tools and Methods for PSIA offers guidance on Behavioural Models, Partial Equilibrium Models and General Equilibrium Models.

www.rri.wvu.edu/WebBook/Schreiner/contents.htm

This is a web-link containing a guide as to how to construct step-by-step a Computable General Equilibrium (CGE) model

www.gtap.agecon.purdue.edu/resources/tech_papers.asp

This link provides a number of technical and working papers using the GTAP database and framework.

www.ifpri.org

The International Food Policy Research Institute provides a number of papers on modelling of trade and other market issues, environment and production technology, but also research on impact assessment (follow the link to Research and then to Impact assessment).

www.farmfoundation.org/projects/02-27.htm

This link provides some resources / papers on modelling agricultural trade liberalisation.

A potential advantage of modelling methods is that they provide opportunities to test specific hypotheses (preferably, which have sound theoretical formulations) about the nature of cause-effect links and to establish their statistical significance. If the data used has been carefully collected from a sufficiently large and representative sample (e.g. from individuals, households etc.), the results may be generalised. The findings may then be valuable in their own right within SIA studies or may be used in conjunction with other assessment methods – for example, in specifying functional coefficients within models, in enriching descriptive case studies and/or in assisting to make expert judgements.

Like all other assessment methods, they also have their drawbacks and limitations. They generally have a more limited role to play in assessing cause-effect changes where these are of a qualitative or non-economic nature. This is part of a more general problem that qualitative changes within the modelling framework tend to get neglected or be treated inadequately. Many statistical estimation studies use time series data which produce estimates of coefficients which may be historically correct but not necessarily appropriate to future conditions. Because of practical difficulties (e.g. lack of certain types of data) the hypotheses which are tested may implicitly oversimplify the causal chain (e.g. by excluding some of its intermediate cause-effect links) leading, over time, to incomplete explanations of change and increasingly inaccurate assessments due to the growing influence of excluded variables.

Further, much depends upon the quality of the data which are collected and used. As in the case of modelling studies, there is always some risk that greater attention will be given to the appropriate application of the statistical technique than the appropriateness and quality of the information which it assembles and processes. However, it must also be recognised that gathering new data, of the types and quality required for SIA studies, is likely to be an expensive and time consuming exercise.

Studies, based on the use of statistical estimation methods, should make a useful contribution to SIA studies, though in many cases this will be supplementary to the contributions from other assessment methods. It is important that, in each case where these methods are used, the statistical estimates themselves and the quality of data employed are evaluated.

4.2.3 Data Sources

The previous section has shown how data constraints, in terms of quality and availability, will partly determine the practical assessment methods which can be chosen, and the level of detail at which the methodology can be applied. The data constraints are likely to be case-specific, and as a consequence, the methodology package – the preferred combination of methods, assessment requirements and consultations – will need to be specified within the screening and scoping stage for each policy measure.

Data constraints are likely to arise in a number of different forms. They include:

- the definition used for the collection and measurement of data may diverge from the ideal definition required for assessment purposes. For example, the 'ideal' measurement of real income includes the social and environment costs and benefits of economic activity, whereas the actual measure of real income (at the national level) does not allow for these externalities.
- the data gathered may diverge from the measurement definition. There may be differences in accounting and estimation procedures between countries, which make cross-country comparisons difficult. A lack of comparability in price and exchange rate information, for example, makes cross-country comparisons of real output levels and growth rates difficult.
- some data may be unavailable, or inaccessible for reasons of confidentiality. In these cases, the 'missing' data may have to be estimated or extrapolated on the basis of historical data or expert opinion.
- different sources of data relating to the same indicator may be incompatible or difficult to use in combination. For example, data on real income which is gathered from household survey sources may not be easily reconciled with national accounting statistics on aggregate household real income. Different sources of data may be better suited to particular assessment methods, for example, macro modelling will normally use national accounting statistics, whereas case studies will rely more on household-level data. If there are difficulties in reconciling and combining different data sources, it may limit the ability to make use of the range of assessment methods at the full assessment stage.

The data constraints mean that the available data will typically be an *approximation* of the ideal data requirements for impact assessment. In judging the suitability of data for use in strategic impact assessment, it is recommended that the data requirements be defined as precisely as possible. The available empirical data that approximates this definition should then be identified. Finally, the degree of discrepancy between the definition and the empirical data should be assessed and a judgement made on whether the

data is to be used in the assessment. Where different sources of data are available it may be possible to test the robustness of the impact estimates by using the alternative data sources in a process of 'triangulation'. Any significant discrepancies or limitations in the data should be recorded and acknowledged in the presentation and interpretation of the assessment results.

If critical data gaps are identified, it may be necessary to gather the data needed. Where this is not possible, it may be necessary to use data from a non-representative sample, or to 'transfer' estimated parameter values from studies undertaken in other countries.. Again, the assumptions and limitations should be made explicit in these cases.

Ultimately, a judgement will have to be made on how to proceed, based on the time and resources available to improve the data base, and on the acceptable degree of uncertainty about the impact estimates.

Box 5 Data collection methods

www.enterprise-impact.org.uk/informationresources/toolbox.shtml

See *How Do We Find Out, Thinking it Through and Sampling*

SEEP/AIMS Manual, 'Learning from Clients: Assessment Tools for Microfinance Practitioners'(January 2000), available on CD-Rom, printed from AIMS, or on <http://www.usaidmicro.org/default.asp> or <http://www.cgap.org/> Survey tool, chapter 4B

4.2.4 Consultation Arrangements

Consultation arrangements provide a means by which stakeholders can contribute to the SIA study. These arrangements can contribute both as a method of assessment, and as an integral element of the SIA process itself.

The stages in the assessment process at which consultation meetings (for expert opinion and for the participation of civil society) should take place, should be specified at the commencement of the SIA and should be an integral part of each stage of the SIA process.

An early identification of the relevant stakeholders is important. *Stakeholder analysis* identifies two sets of stakeholders: the people, groups and organisations that may be affected by the policy; and who may affect the adoption and implementation of the policy. Stakeholder consultation will inform the assessment of impacts, by helping to predict the ways in which the policy will impact on different groups and individuals. Consultations will also assist in the assessment of the mitigation and enhancement measures, and can thereby influence the likelihood of the policy intervention achieving its goals.

Box 6 Consultation Methods

<http://www.worldbank.org/participation/>

The World Bank's Participation and Civic Engagement Group promotes methods and approaches that encourage stakeholders, especially the poor, to influence and share control over priority setting, policy making, resource allocations and access to public goods and services.

www.fao.org/participation/

This is the website of the Informal Working Group on Participatory Approaches and Methods to Support Sustainable Livelihoods & Food Security (IWG-PA) of the Food and Agriculture Organization of the United Nations (FAO). Look under Field Tools.

www.eldis.org/participation/pme/index.htm

The eldis participatory monitoring and evaluation site offers background information, links to methods, tools and manuals.

4.3 Assembling Case-Specific SIA Methodologies

This section examines how the different components of the methodology might be selected and brought together on a case-specific basis. A simple form of decision tree analysis is proposed which helps to identify, on a sequential and internally consistent basis, each of the components that have been discussed above:

- the assessment *tasks* that need to be undertaken;
- the assessment *methods* required to undertake these tasks;
- the *data* needed to apply the assessment methods

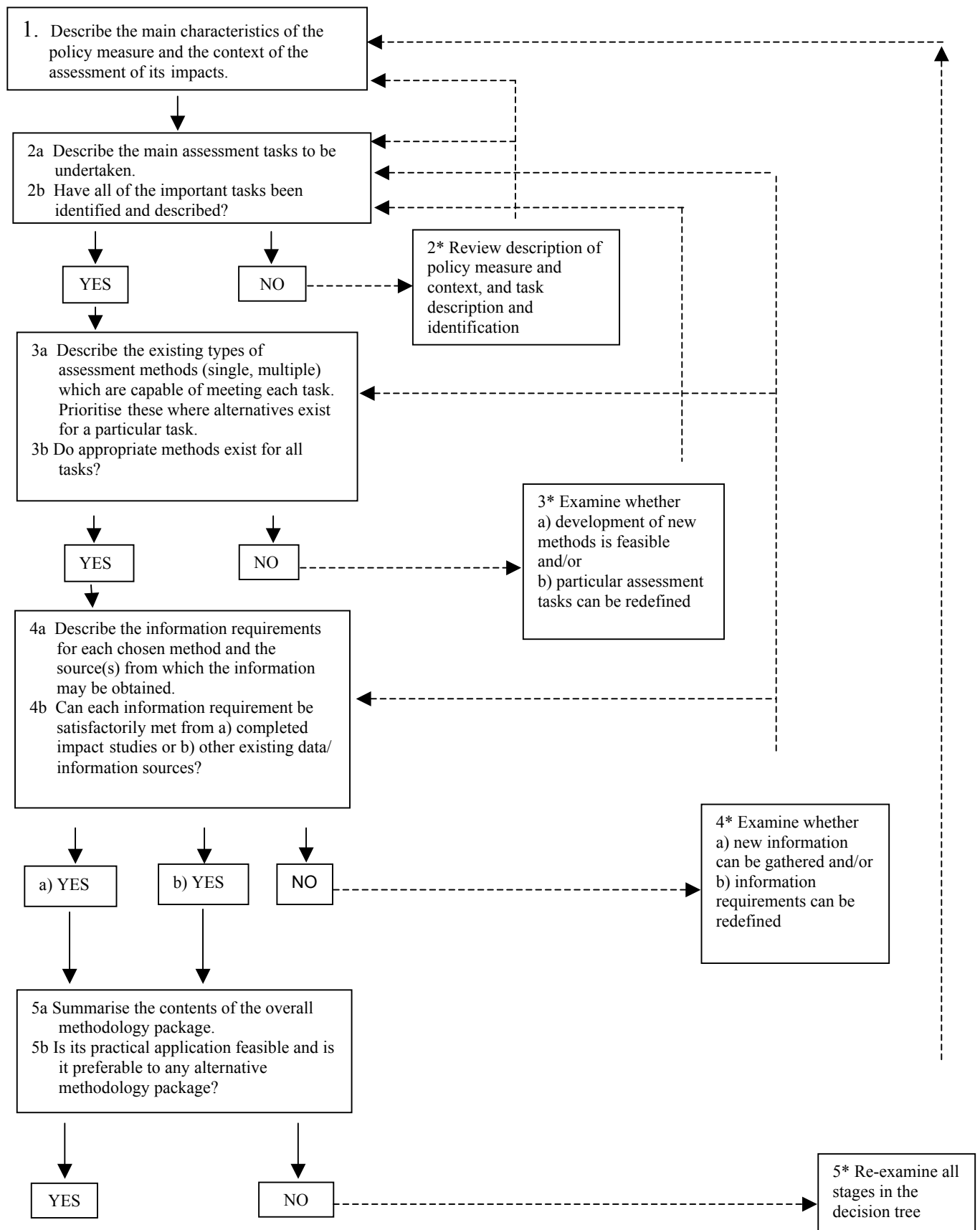
The main elements in the decision tree analysis, and their sequencing, are shown in Figure 2. The analysis should be applied at the level of the individual policy measure but, where its content is fairly broad and heterogeneous, it may be necessary to apply the analysis to its main components as well.

The analysis follows a predominantly linear sequence: 1. policy measure characteristics → 2. assessment task requirements → 3. selection of assessment methods → 4. information requirements and selection of information sources → 5. overall appraisal of methodology package. The development of the methodology proceeds from one of these stages to the next, provided the former has been satisfactorily completed. Where deficiencies are identified at any stage in the sequence, the analysis 'loops back' to an earlier stage or stages to search for a solution.

Supplementary guidance is attached to Figure 3 in the form of brief explanations of what is required at each of the boxed stages in the decision tree, and cross references are made to additional information located elsewhere in the report.

This decision tree approach may assist in preparing the methodology for any stage in the SIA process. However, it is most likely to be useful when preparing the SIA methodology for the detailed assessment stage and in the subsequent evaluation of M and E measures. For these purposes it should be initially prepared as part of the screening and scoping update, but may be subsequently refined as the detailed assessment proceeds.

Figure 3 A Decision Tree for Use in Constructing a Case-Specific SIA Methodology





Supplementary Guidance to Figure 3

1. The checklist of policy measure characteristics and country / region characteristics provides initial guidance on the type, and level of detail, of the information relating to the policy measures which is required.
2. The information gathered under 1., plus information obtained from the causal chain analysis during the screening and scoping update, should be used in identifying the main assessment tasks.
3. The range of the different types of methods which might be used in undertaking each assessment task should, initially, be broadly defined. They should include, for example, modelling methods, data-based (statistical estimation) methods, descriptive (case study) methods, expert opinion and consultative arrangements. A combination of methods may be needed to undertake a particular task. The methods selected to perform a particular task should be defined in sufficient detail to ensure that they are appropriate to the particular task and are capable of carrying it out satisfactorily. For example, if a model is selected, the type of model proposed and its principal properties should be indicated. Where a choice is to be made between different methods, the criteria used in making the choice should be indicated.
4. The range of the types of information that might be used in SIA studies should also be broadly defined and include quantitative and qualitative information. The types of information that are required should be identified by reference to items 1 and 2 above and the specific requirements of the assessment methods selected for use. Information requirements should be defined in sufficient detail to check their availability for assessment purposes, to determine where gaps exist, and to assess how any deficiencies might be rectified. In assessing the availability of information, a distinction should be drawn between where i) the methods and data already exist and the relevant impacts have already been assessed and reported, ii) the methods and data already exist but additional model applications are needed to assess the relevant impacts, and iii) existing data are inadequate, and both additional information and method applications are needed.
5. The purpose of this stage in the assessment is to check i) the overall coherence of the methodology package that has been assembled, ii) that it is technically feasible and falls within agreed budget and time constraints, and iii) there is no alternative, preferable package to the one proposed for adoption.

2*, 3*, 4* and 5*

Each of these boxes describes the actions to be taken where a 'deficiency' has been detected at one or more stages in the development of the methodology. In each case, this requires returning to one or more earlier stages in the decision tree analysis, and checking / amending the previous decisions at those stages. Then, where an earlier decision is changed, consequential changes should be made to succeeding stages in the decision tree and checks made to determine whether the 'deficiency' has been removed. In some cases, it may be necessary to complete more than one iteration of the corrective 'loop' before deficiencies are removed.

5 CONCLUSIONS

This paper has provided a user's road map to conducting a strategic impact assessment (SIA) of enterprise development policy interventions, where the goal is poverty reduction. It has set out a methodological framework for SIA analysis, and has described each of the main stages in the methodology.

It has taken a practical approach which allows for both the context specific nature of SIA studies, and the resource constraints that will determine the scale and detail of the SIA that is undertaken. The approach and methods that have been discussed are intended to be adaptable to the particular context and circumstances of the study. Guidance has been provided, therefore, on assembling a case specific methodology 'package' which brings together the assessment tasks to be undertaken, the assessment methods required to undertake these tasks, and the data needed to apply the assessment methods. The integration of consultation processes into the SIA has also been discussed.

Furthermore, the paper has provided a non-technical guide to the tools and methods that can be used in undertaking an assessment of the impacts of a policy intervention. This is intended primarily to give practitioners a critical awareness of the range of tools and methods that are used in impact assessment, and an appreciation of their respective advantages and limitations. Further guidance to the choice and application of the various techniques is provided by cross referencing to the relevant parts of the EDIAIS website and to the World Bank's *Toolkit for Evaluating the Poverty and Distributional Impact of Economic Policies*.

It is emphasised that this study does not provide a template methodology for undertaking strategic impact assessment. Rather, it offers a framework which can be adapted to match the conditions and context in which the policy is being assessed. In applying this framework the analyst will need to exercise judgement based on knowledge of the 'local' context and the constraints associated with the study. The aim of this paper has been to provide practitioners with the means of making better informed choices and

judgements when carrying out strategic impact assessment of enterprise development policy interventions.

(1) This paper should be read in conjunction with the companion EDIAIS paper on strategic impact assessment, Lee (2003)

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