

# STRATEGIC IMPACT ASSESSMENT AND ENTERPRISE DEVELOPMENT

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“Many governments, institutions and project managers are reluctant to carry out impact evaluations because they are deemed to be expensive, time consuming and technically complex, and because the findings can be politically complex, particularly if they are negative. Many evaluations have also been criticised because the results come too late, do not answer the right questions, or were not carried out with sufficient analytical rigour.

Yet with proper and early planning, the support of policy makers, and a relatively small investment, a rigorous evaluation can be very powerful in assessing the appropriateness and effectiveness of programmes.”

(Baker, J.L. (2000) Evaluating the Impacts of Development Projects on Poverty : The World Bank, Washington DC, p. vi)

## SUMMARY

This paper reviews how strategic impact assessments (SIAs) may be used to strengthen the appraisal and evaluation of policies, plans and programmes (PPPs) for enterprise development (ED) in developing countries. Since this is a relatively new area for the application of SIA, it is developmental in character. It draws upon the wider literature on different forms of impact assessment, including strategic and project levels of assessment; and economic, social and environmental forms of assessment. It also takes account of the main types of enterprise development strategy that may require assessment - financial services; business development; improving the regulatory environment, and improving the infrastructure environment – and the institutional context in which this may take place. The paper is divided into six sections, which, after an **Introduction**, cover:

**2. An Overview of SIA for Enterprise Development** This establishes the case for targeted support of enterprise development, particularly among small and medium-sized enterprises and identifies the main types of intervention that may be justified. It also distinguishes between the use of strategic and project-level assessment and the need for the complementary use of each; and the distinction between *ex ante* appraisal and *ex post* evaluation and the importance of using both. The complementary uses, and differences between, specialised and integrated forms of assessment are examined, as are the complementary uses, and differences between short, intermediate and long-term assessments. The section concludes with a short analysis of the importance of multi donor-recipient country co-operation in securing overall effectiveness in development aid planning, assessment and implementation.

**3. Setting Goals and Targets** This establishes the importance of clearly defined goals and precisely formulated targets within these goals, to the overall functioning of the SIA process and the determination of impact assessment criteria, in particular. The current importance of two, internationally agreed, development goals – poverty reduction and the promotion of sustainable development – is highlighted. Both goals are multi-dimensional – that is, each contains economic, social and environmental components that are of importance in the appraisal and evaluation of PPPs for enterprise development.

**4. The Strategic Impact Assessment Process** The effectiveness of SIA, when applied to PPPs for enterprise development, depends as much on the effectiveness of its assessment process as it does on the quality of data, assessment methods and analysis, which it uses. The role of each stage in this process is briefly explained, covering: screening; scoping; impact assessment; options analysis; decision-making and implementation; and monitoring, evaluation and post-auditing. The role of consultation and inter-agency co-ordination, throughout the process, is highlighted. The contribution, which screening and scoping, in particular, can play, in promoting cost-effectiveness within the process is also emphasised.

**5. Assessment Approaches and Methods** This section reviews various approaches and methods which are likely to be helpful in undertaking PPPs for enterprise development. The review covers: the use of screening lists; the specification of base-line conditions; the use of causal chain analysis; the definition and use of indicators; option analysis methods; and approaches to monitoring, evaluation and post-auditing. In each case, emphasis is placed on the selection and practical application of cost-effective assessment methods.

**6. The Practicalities of EDSIA Implementation** The emphasis throughout the paper is on user-friendly SIA application; however it is recognised that a number of implementation challenges still remain to be tackled. These are grouped into three categories: institutional and procedural; technical and methodological; and resource, experience and data constraints. Some specific proposals are made to address these:

- Use the move towards more strategic, integrated forms of appraisal and evaluation to create new opportunities to streamline and rationalise existing assessment procedures and inter-organisational working practices, as well as to make these more effective.
- Test the EDSIA guidance, through practical case studies, and then incorporate case summaries into the finalised guidance.
- Identify, at country level, data priorities for impact assessments of enterprise development PPPs and, in co-operation with appropriate donor agencies and recipient countries, establish and progressively expand ED data banks to meet these priorities.
- Develop a short-course programme for raising awareness and training in the use of strategic-level appraisal and evaluation methods for enterprise development.

# 1. INTRODUCTION

The main purposes of this paper are to examine:

- how strategic impact assessments (SIAs) may be applied to policies, plans and programmes (PPPs) for enterprise development (ED); and
- the processes and methods by which EDSIAs may be undertaken and their findings used in practice.

The paper is mainly addressed to those involved in promoting enterprise development, particularly through policies, plans and programmes, which are applied in developing countries. These PPPs may be undertaken, separately or jointly, by donor aid agencies, development banks, and agencies within recipient developing countries.

Strategic-level impact assessments of different kinds are now being more widely applied than in the past to improve the quality of PPPs and the effectiveness of their implementation. However, compared with project-level impact assessments, SIA practice is still relatively limited and SIA methodologies are much less developed (Lee and George, 2000; Petts 1999; Wood, 2002 forthcoming).

In regard to enterprise development, project-level initiatives and assessments have also been most common and this is reflected in existing assessment guidance, though newer, more strategic assessment guidance is being prepared. In the case of DFID, for example, the assessment of new development aid proposals takes place within the framework of the Project Management Cycle (PMC). This covers each of the traditional stages in the assessment process for projects: identification, design, appraisal, approval, implementation, and monitoring and review (Gavin and Pinder, 2001). However, though it was originally prepared with project-level assessments in mind, many of the assessment stages it uses broadly correspond to those which, with adaptation, could be used in a strategic impact assessment at the policy, strategy or programme level. In the case of enterprise development, the Enterprise Development Department (EDD) in DFID additionally makes use of ED specific guidance, for example:

- CGAP guidelines relating to the appraisal of micro finance institutions (CGAP, 1999); and
- Donor Committee guidelines on principles for donor intervention in business development services for small enterprises (Donor Committee, 2001a).

Additionally, EDD is supporting ongoing work within the Donor Committee to develop guidance on strengthening the business-enabling environment for small and medium sized enterprises (SMEs) in developing countries (Donor Committee 2001b).

Given the limited current level of experience in applying SIA to ED strategic-level measures, this paper is, of necessity, of a developmental nature. It draws upon a greater body of experience in the broader impact assessment literature and relates this to the specific case of enterprise development in

proposing an approach to EDSIA, which might subsequently be elaborated and tested in the field.

The remainder of this paper is divided into the following sections:

2. An overview of SIA for enterprise development
  3. Setting goals and targets
  4. The strategic impact assessment process
  5. Assessment approaches and methods
  6. The practicalities of EDSIA implementation,
- and concludes with a list of references cited in the text and other documents used in the preparation of the paper.

## 2. AN OVERVIEW OF SIA FOR ENTERPRISE DEVELOPMENT

Enterprise development measures may be defined as actions taken by a donor to promote the contribution of enterprises (in the private or public sector) to meeting specified development goals in a recipient country. In practice, the scope of these actions may be narrower. For example, they may be confined to small and medium-sized enterprises, located within the private sector.

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.

More specific arguments for supporting business enterprises are related to the goals on which the development strategy is based. For example, where poverty reduction is a primary goal, the case for supporting enterprises will depend primarily upon their contribution to poverty reduction, but also taking other costs and benefits of any enterprise support into consideration.

DFID's Enterprise Development Strategy (DFID, 2000a) 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).

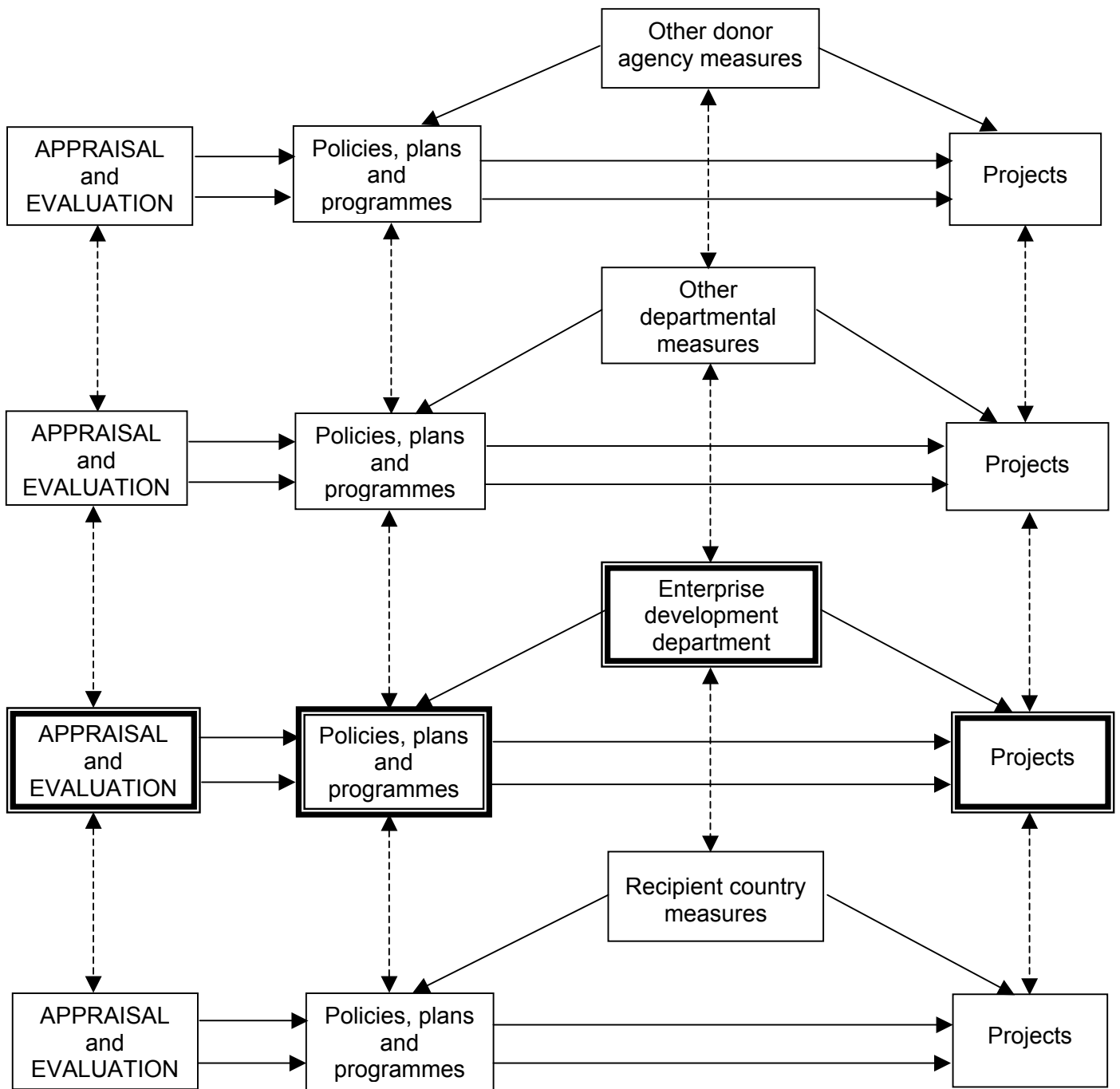
Source: DFID Enterprise Development Strategy (2000) – Executive Summary.

Enterprise development measures are shown in Figure 1, which also illustrates:

- The distinction between ED policies, plans and programmes (PPPs, for which strategic impact assessments are required) and ED projects (which require project-level impact assessments).
- The distinction between different types of assessments, both for PPPs and for projects.
- The relationships between the department's ED measures and other measures initiated within other departments in the agency and other external agencies, which may also influence overall ED outcomes.

Each of these is briefly explained below.

**Figure 1 Enterprise development measures, impact assessment levels and contextual influences**



**Key**



EDD activities



Direct measure-assessment links



Co-ordination links

## **Distinctions between strategic and project levels of assessment**

Identifying strategic level ED measures, defining their hierarchy and interrelationships, and distinguishing these from project level ED measures for assessment purposes is an important, but rarely straightforward, exercise. A considerable variety of different kinds of policies, strategies, plans and programmes of varying status and formality, proposed and implemented, exist at any time and these change over time. In the case of DFID, responsibility for a number of these PPPs is located in the Enterprise Development Department (EDD/DFID). Others are undertaken jointly with different departments within the same agency; in certain cases with these latter departments taking the lead roles. Examples cited in the Enterprise Development Strategy, include the Departments dealing with Rural Livelihoods and Environment, Infrastructure and Urban Development, Education, Health and Population, Economic Advisors and International Financial Institutions, and Social Development. Additionally, important PPPs are constructed on a geographic, as well as on a sectoral, basis – for example, in the case of Country Strategies – and are inter-sectoral/interdepartmental in nature. Determining, in these circumstances, which measures should be assessed, the relationship between assessments of different, but connected, measures and establishing consistent methods and procedures for assessment, is challenging and requires careful resolution.

## **Distinctions between different types of assessment**

**Ex-ante appraisal and ex-post evaluation** An important distinction is to be drawn between ex-ante appraisal and ex-post evaluation in both strategic and project-level assessments, since they serve different purposes and are somewhat different in character. At the same time, they should be viewed as complementary forms of assessment. When applied in a consistent and co-ordinated 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 co-ordinated with the planning of the proposed measure and influence its evolution. Appraisal should commence at an early stage in the planning process. The proponents of a new measure should be associated with both its planning and its appraisal, but there should be sufficient independent checks built into the appraisal process to ensure its credibility and objectivity. 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 (see 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 and, if not, whether changes should be proposed to the measure, and/or implementation arrangements should be strengthened. In more extreme cases, the implementation of the measure may be terminated and a different kind of measure may be proposed in its place.
- Assessing whether the actual impacts are consistent with the impacts predicted in the appraisal. If not, this may justify changes to the appraisal methodology which is to be used in future assessments. In this way, appraisal practice is strengthened by drawing upon evaluation experience.
- Assessing whether the impacts resulting from projects implemented within the framework of a PPP are consistent with those predicted in the PPP's appraisal. This is an important test of the consistency between project appraisal and implementation and PPP approval, especially where responsibility for project appraisal and implementation is decentralised and undertaken by different authorities.

**Specialised and integrated assessments**—Specialised assessments only cover certain of the impacts associated with an action, whilst integrated assessments attempt to assess all types of significant impacts, relevant to an action's approval and the goals it is intended to serve. The former type of assessment is more fully developed and the numbers of specialised types of assessment continue to increase, although these are more commonly used at the project level (see Box 2). The literature on the use of these specialised forms of assessment is extensive, at the project-level, and growing at the PPP level. This is a useful source of information to be used, with appropriate adaptation, in improving strategic-level assessments for enterprise development (see 'Additional References' at the end of this paper).

<b>Box 2 Examples of specialised forms of impact assessment</b>	
Economic appraisal/evaluation	Social impact assessment
Fiscal impact assessment	Poverty impact assessment
Environmental impact assessment	Health impact assessment
Strategic environmental assessment	Gender impact assessment
Risk assessment	Regulatory impact assessment

Specialised impact assessments may enable particular types of impact to be assessed more thoroughly than might be the case in broader-based assessments. However, they have limitations, when used for comprehensive planning, decision-making and overall evaluation purposes. This is because of their incomplete coverage of all relevant types of significant impacts, and

difficulties in combining their separate findings due to incompatibilities between the assumptions, methods and data they may have used.

**Integrated impact assessments** (which include sustainability impact assessments) are being increasingly undertaken at both strategic and project-levels and cover various kinds of economic, social and environmental impacts (Kirkpatrick and Lee, 1997; Lee and Kirkpatrick, 2000). The integrated approach, though much less widely used at present than specialised assessments, has the potential to be the more useful. It may avoid undertaking several separate, possibly inconsistent, assessments whilst retaining the option of incorporating some more specialised assessment components where these can be helpful.

**Short-term, intermediate and long-term assessments** Assessments can also be distinguished according to the duration of the time period, which they cover. Each serves a different but complementary purpose. Short-term assessments may cover a period corresponding to the formal completion of the action and are largely concerned with whether it has been (or is likely to be) executed fully and satisfactorily. Intermediate assessments aim to capture the actual (or likely) consequences of the action by intermediate target dates, following its implementation. Their purpose is to check whether the actual (or likely) impacts are 'on track' for a satisfactory long-term outcome or not. The long-term assessment determines its actual (or likely) impacts, once the full effects of each action's implementation are likely to be realised.

### **Relationships between and within donor organisations and recipient countries in promoting enterprise development**

So far, most of this overview has implicitly assumed that enterprise development is being promoted by a self-contained department, within a donor agency, which is free to develop and apply its own strategic assessment methods and procedures 'from scratch', and without reference to the assessment practice of others. Clearly this is not the case. To varying degrees, assessment practice varies between departments within the same agency and, to a greater extent, between different donors and recipient developing countries. This provides considerable scope for intra- and inter-agency inconsistencies in assessment methodologies and their application. When formulating strategic-level assessment methods for enterprise development, there is a strong case for encouraging greater consistency in assessment methods between the parties likely to be involved. Given the practical limits to achieving an ideal solution, ED departments need to be aware of the circumstances where significant inconsistencies are likely to occur and of the 'second best' forms of joint strategic assessment, which may be appropriate in these cases.

A second type of inter-agency relationship to be considered in strategic impact assessment concerns the potential synergistic impacts, which may result from multi agency-recipient country initiatives in enterprise development. These may be positive, where the initiatives are mutually supportive but, equally, they may be negative where initiatives are conflicting.

The existence of these potential synergies provides strong support for inter-agency co-operation (e.g. through DAC, the Donor Committee and CGAP).

This 'wider picture' of inter-agency, and agency-recipient country, assessment methodology and practice is very important. EDD (DFID), in its Enterprise Development Strategy (2000a), proposes to:

- Engage entrepreneurs and government in active dialogue on private sector strategy and involving them directly in the formulation of private sector policy;
- Collaborate with other bilateral and multi-lateral institutions, in policy formulation, programme and project finance – also to work for better co-ordination between donors and to reach common agreement on best practice and operating standards; and
- Working increasingly on a multi-discipline fashion, bringing to bear the expertise of many DFID professional groups.

### **3. SETTING GOALS AND TARGETS**

The setting of goals, and the means by which this is done, is of prime importance to the entire assessment process. At the same time, this is rarely a straightforward exercise, for the following reasons:

- Setting goals for strategic level actions (which are often broadly defined and long term in nature), which can be expressed in a sufficiently precise form (e.g. to set specific targets) for assessment purposes, is challenging.
- A number of different and important stakeholders are likely to be involved in the formulation of ED measures and their assessment, but the goals each wishes to pursue are likely to differ. Resolving goal conflicts, in a mutually acceptable manner, can be difficult. However, if these are not satisfactorily resolved, problems of political acceptability and non-compliance may be experienced later.
- Public sector support for private enterprise development can itself be perceived as a potential source of conflict (i.e. between pursuing public sector goals and promoting private sector interests). For this to be resolved, the rationale of promoting enterprise development in the private sector, as a public policy goal, needs to be clearly formulated in terms of correcting market and regulatory failures and addressing equity concerns, and to be fully reflected in EDSIA's practical application.

These tasks of goal and target setting can be made easier (though rarely completely resolved) in a number of ways, by for example:

- Adopting major development goals, which have already been broadly accepted at the international level – poverty reduction and sustainable development, discussed below, fall in this category.
- Building a consensus, through stakeholder consultations, on broad, high-level goals for enterprise development and using these as a 'nest' within which more specific, lower level, ED measures can be assessed.

## Poverty reduction goals

There is a widely held commitment, by many governments, to the International Development Target to reduce, by half, the proportion of the world population in extreme poverty by 2015. In the case of the UK government, support for this commitment is contained in the 1997 White Paper on Eliminating World Poverty and is elaborated in DFID's (2000b) report on 'Halving World Poverty by 2015: Economic Growth, Equity and Security', and nine Target Strategy Papers. In turn, the Enterprise Development Department has analysed the likely implications of these Papers for its own ED strategy and its future actions (see EDD (undated) Implications of Target Strategy Papers for Enterprise Development).

Translating this broad goal into a more precise and target form, that can be used for assessment purposes, requires further clarification and specification, for example:

- What is the UK government's target for its share in meeting this international target?
- What is the time profile it envisages for meeting its target? Does it have an intermediate target in mind? What target/s does it have for poverty reduction beyond 2015?
- How is extreme poverty to be defined and its reduction to be measured? The simplest measure might be based on an internationally agreed definition of personal income. On the other hand, this measure has been criticised because it excludes non-monetary components of 'livelihood' and, more especially, it does not consider the sustainability of livelihoods. Different approaches to the definition and measurement of 'livelihood' are to be found in the literature (see, for example, Carney et al, 1999). However, adopting this multi-dimensional concept of livelihood and applying it in the form of a readily measurable set of strategic level indicators, which can be satisfactorily used in practice, is a considerable task.

EDD has already identified, in each of the nine Target Strategy Papers mentioned above, a poverty dimension to which its own strategy should make a positive contribution. These include strategies also being promoted in other DFID departments concerned with: strengthening governance, meeting the urban challenge, empowerment of women, environmental sustainability, human rights, addressing the water crisis, better health for poor people and education for all. Not only is the reduction of 'poverty' a multi dimensional goal but also the contribution of enterprise development to achieving it is indirect (through other departments and joint strategies) as well as direct (through a more direct enterprise development strategy).

## Sustainable Development Goals

Additionally, there is a broad commitment, in many countries, to the promotion of sustainable development at the international level. The UK Government is committed to support internationally agreed sustainable development targets

and policies, which 'create sustainable livelihoods for poor people, promote human development and conserve the environment' (DETR (2001) p. 81). International development targets – economic, social and environmental – are summarised in Box 3.

### **Box 3 International Development Targets**

- A reduction by one half in the proportion of people living in extreme poverty by 2015.
- Universal primary education in all countries by 2015.
- Demonstrated progress towards gender-equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005.
- A reduction in two-thirds in the mortality rate for infants and children under the age of 5 by 2015.
- A reduction by three-fourths in maternal mortality by 2015.
- Access through the primary health care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than 2015.
- Implementation of national strategies for sustainable development in all countries by 2005, so as to ensure that current trends in the loss of environmental resources are effectively reversed at both global and national levels by 2015.

Source: DFID (2000d)

The specification of sustainable development goals and targets, like the earlier statement of poverty reduction goals, requires some further clarification before it can be used operationally for assessment purposes. However, importantly, it seems possible that both the 'poverty' and 'SD' goals can be reconciled. This assumes that the broader livelihood interpretation of poverty reduction is adopted and goals are not exclusively focused on the 'extreme poor' but also promote the sustainability of communities as a whole and their life support systems.

If so, good use could be made of these poverty reduction and sustainable development goals and other supporting strategies in the formulation of

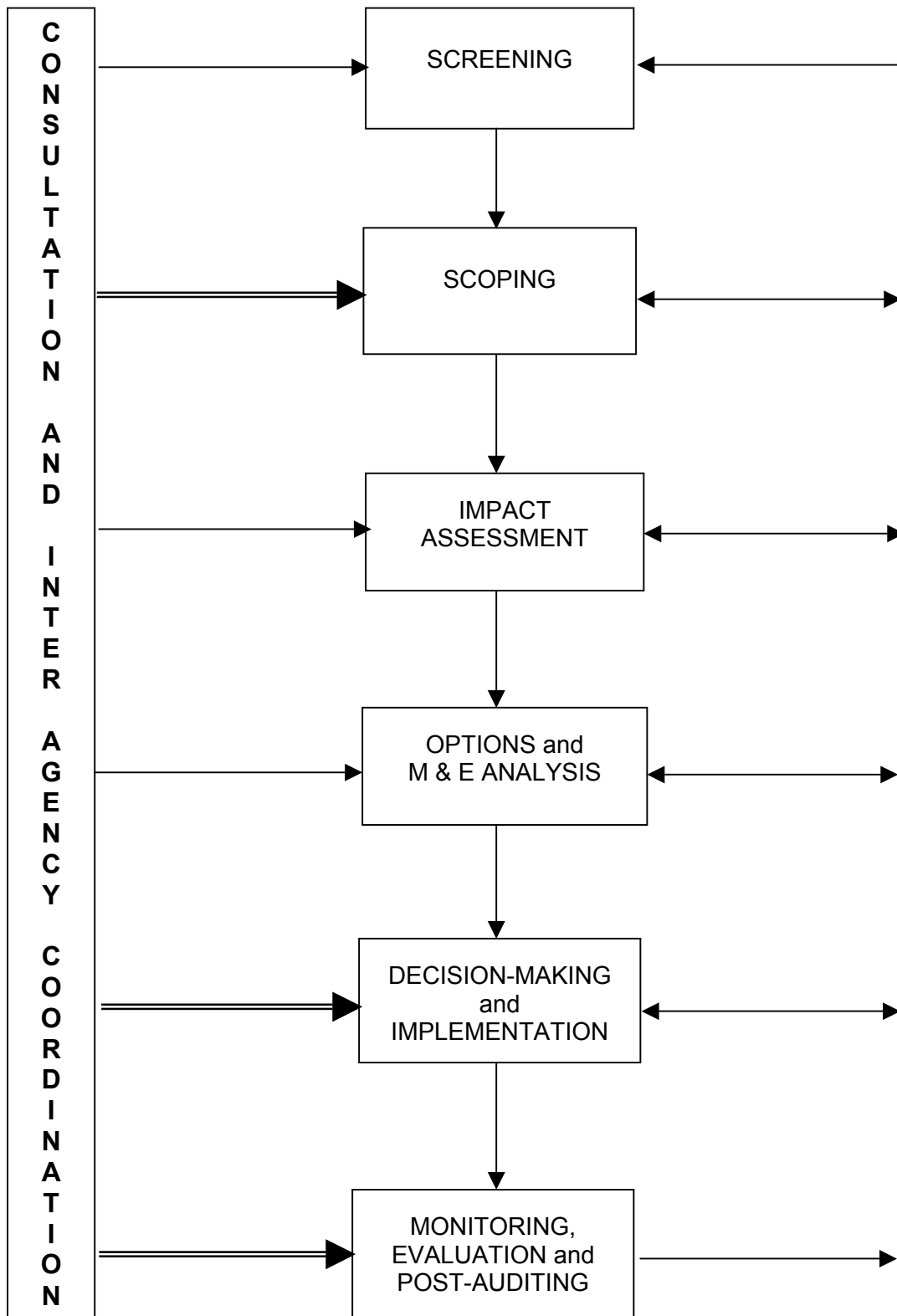
enterprise development goals, targets and strategies. For example, DFID could draw upon Poverty Reduction Strategy Papers (PRSPs) and National Strategies for Sustainable Development (NSSDs) in the preparation and assessment of their own updated Country Strategy Papers (CSPs). Examples of this documentation, and ongoing appraisal and evaluation studies, relating to these, are listed under 'Additional References' at the end of this paper.

#### **4. THE STRATEGIC IMPACT ASSESSMENT PROCESS**

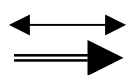
The effectiveness of SIA, when applied to policies, plans and programmes for enterprise development, will depend as much on the effectiveness of its assessment process as it will on the quality of the data, assessment methods and analysis which it uses (Lee and George, 2000). Issues, relating to the effectiveness of the SIA process, are examined in this section; those relating to assessment methodology and its application are examined in the next section. 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 2, which also indicates the linear and cyclic relationships that may exist between its main components.

Figure 2: Stages in the SIA process for ED policies, plans and programmes



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 PPP measures require an assessment and which do not. It should be undertaken at as early a stage in preparing PPPs 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 PPPs according to whether they require a 'full', 'simplified' or 'no' SIA, may be used. Alternatively, a set of screening criteria may be provided for use in assigning PPPs to one of the above categories, on a case-by-case basis. Small-scale PPPs and minor modifications to existing PPPs may be exempted from assessment requirements; and other PPPs, which are unlikely to have major economic, environmental and/or social impacts, may be submitted to a simplified assessment. Only a minority of PPPs, with the potential for major and/or complex impacts, may require a full assessment. Where a tiered PPP system is in place (i.e. where PPPs are prepared at different stages in the planning process, on the same topic), screening may exempt certain levels in the tier from assessment where they are not required when making critical decisions and where their impacts can be assessed more effectively at other stages in the PPP process. 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 PPP 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 PPP is addressing, the goals/targets that it is expected to meet, and the alternative forms which the PPP 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 for the PPP under consideration 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 PPP's 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 PPP alternatives is an important, creative exercise in the assessment process. It is undertaken at a stage in the process where new kinds of ED measures, and novel combinations of measures, might be identified for appraisal. This can be particularly useful where more routine planning cultures are embedded, which may benefit from the stimulus provided by innovative PPP proposals, accompanied by rigorous appraisal of their likely consequences.

### **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 PPP alternative 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 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 M&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 2). The assessment methods that may be used in options analysis are discussed in the next section of the paper. Typically, they do not attempt to provide a single-value impact estimate for each option. Instead, they simplify the presentation of the individual significant impacts in a form, which is considered useful for consultation and decision-making purposes.

## **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 PPP'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 appraisal at the PPP approval and the PPP evaluation stage.

## **Monitoring, Evaluation and Post-auditing**

A distinction is to be drawn between the monitoring and evaluation of individual PPP implementation and the more detailed, but selective, monitoring, evaluation and post-auditing of the implementation of the PPP system as a whole. In the former case, the purpose of monitoring and evaluation is to check whether individual PPPs 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 PPPs, 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 PPP planning, decision-making and implementation? If not, proposals should be formulated to strengthen the integration of SIA into the planning, decision-making and implementation process.

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 PPP preparation, approval and implementation.

## **Consultation and Inter-Agency Co-ordination**

Stakeholder consultation and inter-agency co-operation are important components in any SIA system of the type that is being considered in this paper. Their 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 PPP 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 PPP 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 (including those in the recipient country to which the PPPs relate), 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 PPP 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.

Ideally, reciprocal arrangements relating to participation in these consultations should be made between all agencies involved in the preparation and implementation of PPPs for enterprise development in the same country. This would greatly facilitate the exchange of information and mutual understanding between aid agencies and with relevant government departments and NGOs within the recipient country. It would also encourage greater co-ordination in the overall planning and assessment of enterprise development PPPs in the countries concerned.

## 5. ASSESSMENT APPROACHES AND METHODS

This section of the paper briefly reviews some of the assessment approaches and methods, which may be helpful in undertaking SIAs of enterprise development PPPs. The review covers both the appraisal and evaluation components of the assessment process. As mentioned in the Introduction, individual donor agencies, and donor groups such as DAC, the Donor Committee and CGAP, are engaged in an ongoing process of developing and adopting new 'good practice' assessment approaches in response to changes in international development goals, a shift in emphasis from project-level to strategic-level assessments and ex-post evaluation study findings. What follows aims to strengthen, in some respects, and streamline in others, existing approaches and practice at the strategic level.

Simple screening lists should be sufficient, in most cases, to determine which enterprise development PPPs need to be subject to strategic impact assessment, and which need not. A short, 'back-up' set of screening criteria could be developed to guide screening decisions in borderline and unusual cases. The latter may, sometimes, be needed where, for example, responsibilities for strengthening the enabling environment for enterprise development are divided between two or more departments.

Each PPP may be divided into its main components, since it is likely to be easier to assess these separately before assessing the PPP as a whole. For example, an enterprise development strategy, within a Country Strategy, might initially be assessed as four sub-strategies: its financial services strategy; business development strategy; strategy for improving the regulatory environment; and its strategy for improving the infrastructure environment for small and medium-sized enterprises. The specifics of the assessment of each of these components are likely to be somewhat different (e.g. in their causal chain characteristics). At the same time, in order to secure overall coherence in the assessment, it is important to bring these different components together, taking into account any synergistic impacts between them, and between enterprise measures as a whole and those being undertaken by other donors within the same developing country.

The goals of each enterprise PPP 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 PPP and its components are to be assessed. Some goals are multi-dimensional and may need to be represented by multiple targets and constraints. Some goals are implicit and, if ignored, could distort the findings at later stages of the assessment. Some short-term and intermediate goals will relate to the implementation of the PPP itself, as distinct from its resulting poverty reduction and SD goals. Therefore, some targets, and their associated performance indicators, will be more process than impact oriented in nature.

**Baseline conditions** also need to be defined with care and assessed at a level of detail appropriate for a strategic assessment (Oldsman and Hallsberg (2002). Two definitions of the baseline should be distinguished – the present situation, and the likely future situation in the absence of the PPP. The latter definition is the appropriate measure for appraisal and evaluation purposes. Comparisons between the future baseline and the targets to be achieved by the PPP indicate where problems are expected to arise in the future and in what form and to what extent the PPP needs to have positive impacts to remedy these. Given uncertainties about future baseline conditions, alternative scenarios (which are alternative possible future baselines) may need to be constructed. Then, the likely sensitivity of the nature and scale of the future problem, should any of these alternative scenarios occur, can be assessed.

**Causal chain analysis (CCA)** exists in a variety of forms, and under different names, and is being applied in differing contexts, ranging from OECD performance reviews (Pressure-State-Response frameworks) to Global Waters (IWP, 2000) and Root Cause Analyses (Wood et al, 2000). Inter alia, it is a means of tracing the immediate or direct causes of an impact or problem back to its root causes. Often the immediate cause of an impact is not its fundamental cause. Tackling the direct cause may not solve the problem; tackling the root cause may solve more than one problem. The more fundamental causes of existing problems need to be understood, for use in impact assessments, for the following reasons:

- To help in assessing how, and to what extent, problems are likely to change in the future, even if no new PPPs are approved and implemented. (In this way, CCA helps to predict the baseline situation under likely future conditions.)
- To help in identifying appropriate, alternative forms of a new PPP, and of different M&E measures to accompany these, and to assess and compare their likely impacts (The identification of the root causes and important intermediate links in the chain help in selecting alternatives etc. which are likely to have significant effects in reducing the problems by targeting improvements at critical points on the chain.)
- To help, in evaluation and post-auditing studies, in assessing the impacts attributable to the PPP and distinguishing these from impacts due to other causes.

Causal chain analysis is a potentially important tool for addressing the 'missing middle' problem, identified by Booth and Lucas (2001) in many comprehensive poverty reduction strategies. A simple illustration of a possible impact causal chain for a micro-finance project is provided in Box 4.

#### **Box 4 Simplified Causal/Impact Chain for a Micro-Finance Project**

“In a conventional micro-finance project, a package of technical assistance and capital changes the behaviour (and products) of a micro-finance institution (MFI). The MFI subsequently provides different services to a client, most commonly in the form of a loan. These services lead to the client modifying her/his micro-enterprise activities, which, in turn, leads to increased or decreased micro-enterprise income. The change in micro-enterprise income causes changes in household income, which in turn leads to greater or lesser household economic security. The modified level of household economic security leads to changes in the morbidity and mortality of household members, in educational and skill levels and in future economic and social opportunities. Ultimately, perhaps, these changes lead to modifications in social and political relations and structures.”

(Source: Kirkpatrick and Hulme (2001) p. 10)

Constructing causal chains appropriate for strategic assessments, at the more general level, may initially seem daunting. However, there are various approaches and sources of information, which can reduce the task to an acceptable level.

- First of all, and possibly at the scoping stage, concentrate on identifying the main sections of the causal chain and eliminate, as soon as possible, those sections which are shown to be non-significant.
- Use previously completed appraisal, monitoring and evaluation studies, in broadly comparable circumstances, to help in identifying the likely structure of the causal chain for each main component within the PPP and to identify which are the more likely sections requiring further assessment.
- Review other relevant literature relating to the types of impacts, which are most likely to be associated with each main component within the PPP.
- Consult those with local knowledge, in the country concerned, of the causal chains being investigated.

In effect, once the structure of a causal chain has been completed, it represents a simplified conceptual model of the EDPPP and the socio-economic and environmental systems through which its overall impacts are transmitted. However, CCA application does not necessitate formal statistical modelling, though this may be appropriate in certain instances. In the majority of cases, the combined use of existing quantitative and qualitative information, consultation and expert analysis within the framework provided by the causal chain analysis will be sufficient, particularly in the early stages of SIA application.

As experience in the use of causal chain analysis grows, and knowledge is accumulated of different types of causal chains in different countries, this task should become more refined and routine.

**Indicators and measures** play a central role in causal chain analysis as well as in other aspects of integrated impact assessment. Indicators define the main elements of the PPP to be assessed (strategy indicators), the main impacts to be assessed (target impact indicators) and the intermediate causal links, which connect the strategy indicators to the target indicators (causal chain indicators). The definitions should closely correspond to what is considered to be the most conceptually appropriate meaning of the indicators concerned. The scope of each measure should correspond as closely as is empirically feasible to the definition of the indicator to which it relates. Frequently, in practice, this can only be approximated and, often, proxy measures have to be used. Where there are significant differences between the scope of an indicator and its empirical measure, this should be noted and should be taken into account in the interpretation of the causal chain findings.

Considerable interest is being shown in the construction of indicators for use in impact assessment, but much remains to be done before a comprehensive set of indicators can be provided. This will require, as previously mentioned, a careful specification of targets, the principal components of each strategy and the main, intermediate links in each causal chain. To some degree, the indicators to be used will need to be strategy and context-specific. The choice of appropriate measures to match these indicators will be influenced by data availability and a number of these will be case-specific. The greatest, initial progress is likely to be made in the construction of target and strategy indicators. Initially, causal chain indicators, and certain strategy indicators, will need to be developed on a case-by-case basis.

**Options analysis** involves both the comparison of alternative PPPs and components within a PPP, and/or of alternative M&E measures which may relate to a specific PPP or its components. In each case, the purpose of the analysis is to assist in identifying which option, or package of options, is likely to make the greatest overall contribution to the attainment of stated goals and targets.

The comparison of options may be undertaken on an aggregated or disaggregated basis. Cost-benefit analysis (CBA) is an example of an appraisal tool which attempts to aggregate into a single measure, a wide range of the economic, environmental and social impacts of a proposed measure, over the longer term, using economic valuation methods (Kirkpatrick and Weiss, 1996). It has been mainly used in project appraisals but, even at this level, it is rarely sufficiently comprehensive in its coverage to be used on its own. Its deficiencies are more evident, if used by itself, in strategic-level assessments

It is likely that some form of multi-criteria analysis (MCA) will be more useful for PPP option analyses. There are many different formulations of MCA, some of which are relatively complex but these are probably not required for most of the ED appraisals to be undertaken (DETR 2000). Simpler, disaggregated, presentation techniques, such as the Goals Achievement Matrix (Hill, 1968) and the Planning Balance Sheet (Lichfield, 1996) may be more appropriate. The former could be used to show the extent to which each alternative or

M&E measure is likely to contribute to the achievement of each of the poverty reduction and sustainable development targets. The latter would show the extent to which each type of impact (positive or negative), for each option, is likely to fall on each type of stakeholder (e.g. on the extreme poor). In both cases, there is no attempt to provide a single-value estimate covering all types of impact. The aim is to simplify the presentation of all the significant impacts in a form that is useful for consultation and decision-making purposes.

**Monitoring, evaluation and post-auditing** are often inadequate because:

- Insufficiently clear provision has been made for them at the time when the measure was initially approved;
- There is insufficient understanding of the relevant causal chains in order to assess, ex post, the likely outcomes in the absence of the PPP (i.e. in the counterfactual situation);
- The evaluation process is insufficiently transparent, and its results are produced too late and are insufficiently integrated into the decision process for taking action.

If the proposals, made in Section 4, for strengthening the assessment process are implemented, their effectiveness should be significantly improved. At the same time, the costs incurred need to be kept within acceptable limits by ensuring that:

- Monitoring is confined to key impacts and key points on the causal chain.
- The extent of the evaluation is tailored to the importance of the PPP and the significance of its outcomes.
- Post-auditing is confined to a sample of EDSIAs, selected for the purpose of testing and strengthening EDSIA practice. Existing post-auditing assessment methods, mainly used to-date for auditing project-level assessments, need to be adapted to make them more appropriate for strategic-level use, rather than develop entirely new approaches (Arts, 1998).

The assessment approach described in this section has not yet been applied, in its entirety, to enterprise development PPPs. It has been used, however, in some other cases, including a strategic impact assessment of international trade policy, which assessed the potential impact of trade liberalisation measures on sustainable development in developing countries.

### **Box 5 Application of SIA to Trade Policy**

The SIA approach proposed in the paper for use in assessing enterprise development PPPs has been used in a major study of the potential economic, social and environmental impacts of trade liberalisation measures in low-income countries. Details of the methodology, and the results of the SIA studies, are available on the web site at <http://idpm.man.ac.uk/sia-trade>. For further information on the application of SIA and the lessons from enterprise development SIA, contact the main authors, Colin Kirkpatrick and Norman Lee, by e-mail: [CHK@man.ac.uk](mailto:CHK@man.ac.uk).

## **6. THE PRACTICALITIES OF EDSIA IMPLEMENTATION**

At various points in this paper, attention has been drawn to the challenges that will need to be faced in the implementation of a strategic-level system for impact assessment of policies, plans and programmes for enterprise development. These may be grouped into three categories:

- **Institutional and procedural.** The need for intra-organisational and inter-organisational strengthening of awareness and commitment to the requirements of EDSIA. In turn, this may require some new ways of thinking and working, consequential changes to internal procedures, and further strengthening of inter-agency co-ordination.
- **Technical and methodological.** The need to develop new ways (or to strengthen and refine old ways, in some cases) of appraising and evaluating EDPPPs and of integrating their findings into the approval and implementation of policies, plans and programmes. The influence of these new and strengthened approaches should be extended downstream, to include the subsequent appraisal, approval and implementation of more specific programmes and projects.
- **Data, resource and experience constraints.** There are concerns over the likely availability of data to meet EDSIA requirements. There is also a need to take account of limitations in the numbers, skill and experience of available staff, having regard to the nature and extent of the assessment tasks to be performed and their other work commitments. Additionally, there is a need to take account of the pressures on time to complete assessments within tight timetables, if these assessments are to be used effectively for planning and decision-making purposes.

A move towards more strategic, integrated forms of appraisal and evaluation should provide opportunities to streamline and rationalise assessment procedures and inter-organisation working practices as well as to make these more effective.

Data deficiencies in all forms of assessment in developing countries are pervasive and require a strategic rather a piecemeal approach for each recipient country if they are to be tackled satisfactorily. This might take into account the following suggestions:

- Define both the scope and the level of detail of data requirements for strategic impact assessment at the beginning of each assessment, to avoid unnecessary data gathering. Develop with other donor agencies and the recipient country, where possible, a data bank for baseline information to minimise the need for duplication in data gathering.
- Avoid the use of assessment methods which are very data demanding.
- Make fuller use of local experts and other consultees as a source of data and more qualitative information.
- Use the appraisal and decision-making stages of the assessment process to ensure the provision of data, which is needed in ex-post evaluation, as well as to specify the additional requirements to be met through monitoring during the PPP implementation phase. All data should be added to the country data bank for use in future assessments.

Finally, the EDSIA guidance provided in this paper, which draws on best existing practice elsewhere relating to strategic impact assessment, should be tested by application to actual EDPP case studies. This should also be seen as an opportunity to rationalise existing guidance and, where appropriate, reduce its overall length.

These proposals should help to ease existing resource constraints and limitations in experience. However, the reorientation and strengthening of assessment practice will also require some additional provision for awareness-raising and training in strategic-level appraisal and evaluation methods.

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