Case Studies in the Measurement of Donor-Supported Business Environment Reform Results



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by Simon White

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This document contains four brief case studies concerning the measurement of business environment reform results. These cases were prepared as a contribution to the formulation of the annex to the 2008 Donor Guidance on Supporting Business Environment Reforms, entitled *Measuring Donor-Supported Business Environment Reform Results: Practical Guidance for Development Agencies*, which was published in October 2013.

The first three cases are of reform programmes that are currently underway. The first is a regional reform programme (East Africa) designed to increase regional trade. The second case examines tax reform in Nigeria and the third, also in Nigeria, reports on a reform programme dealing with business advocacy and public-private dialogue (PPD).

The fourth case study takes a retrospective look at a sub-national reform programme in Brazil. The State of Minas Gerais launched a reform programme in 2007 designed to improve the regulatory framework for business registration and company formation. In 2010, the World Bank undertook an impact assessment on firm registration and sought to better understand the influences on entrepreneurs' decisions to formalise.

Simon White, consultant to the Business Environment Working Group of the Donor Committee for Enterprise Development, prepared these cases. The Business Environment Working Group is grateful for the support of key staff in the relevant programmes: Donna Loveridge (TradeMark East Africa), Mihaela Balan (GEMS Nigeria), and Gareth Davies and Victoria Harvey (ENABLE Nigeria).

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1. Measuring the Results of Donor-Supported Trade and Customs Reform – The case of TradeMark East Africa

Improving the access firms have to markets, including foreign markets, is a critical focus of many business environment reforms. Private enterprises in developing economies often face a wide range of official and unofficial costs that make trading across borders difficult and reduce the competitiveness of firms when compared to those in other countries.

Reduced trade costs provide an opportunity for firms to increase profit and then reinvest to increase sales, turnover and productivity. Additionally, it increases the competitiveness of domestic firms, at least in the long run, as they become more exposed to dynamic and growing markets. Across the economy, a more enabling trade regime should help increase the volume of imports and exports and subsequently contribute to economic growth and poverty reduction.

While poverty reduction is the overall aim, empirical studies have been unable to demonstrate a conclusive systemic relationship between trade, greater integration and growth or poverty reduction. Studies have also highlighted that although economic growth may increase so too may inequality as increased trade tends to benefit elites rather than the poor. Interpreting the causal relationships between an improved business environment, trade and poverty reduction is difficult and there are many other factors or complementary conditions, such as education, that are also required. (OECD, 2009; Huchet-Bourdon et al, 2009)

Typically, business environment reforms focusing on trade endeavour to reduce the cost associated with importing and exporting. Many factors affect the cost of trade, including poor infrastructure, slow and cumbersome border regulatory and operating processes and non-tariff measures. Reform objectives vary depending on the local contexts and problems yet overall they broadly seek to achieve more efficient, transparent, predictable, and rule-based import and export processes. Reforms may include: new or upgraded trade related infrastructure, such as roads, ports and border posts; reviewing and (re)drafting the policies, laws and regulations governing imports and exports as well as business processes and systems; using ICT to improve the capture, sharing and automation of information processes; developing individual management and technical capacity within trade facilitation public sector organisations and logistics service firms; and establishing greater regional integration through the harmonisation of legislative and regulatory frameworks. Working with the private sector to understand its concerns and to share these with government through advocacy and public-private dialogue is also important, while public-private partnerships can be forged to address specific bottlenecks that are experienced.

Evidence of the contribution of specific trade and customs reforms to reducing trade costs is mixed. The OECD and WTO (2010) indicate that much analysis has been undertaken to clarify the links between trade, growth and poverty, but this needs to be complemented by efforts to improve programme monitoring and evaluation so as to objectively determine the outcomes that can be expected. Measuring the results of donor-supported trade and customs reform requires a system that tracks changes among a wide range of individual and institutional actors in the public and private sectors. It also requires a nuanced understanding of the potential effects reform can have on these actors in the short and long term.

1.1. The case of TradeMark East Africa

TradeMark East Africa (TMEA) is a large six-year $500m donor-funded programme focusing on trade facilitation and regional integration in East Africa. TMEA has its headquarters in Nairobi and has offices in Arusha, Bujumbura, Dar es Salaam, Kampala, Kigali and Juba. It is a not-for-profit organisation that receives funding from a number of donor agencies, including: Belgian Development Cooperation, Danish International Development Agency (DANIDA), Kingdom of the Netherlands, Swedish International Development Agency (SIDA), and Department for International Development (UK Aid).

TMEA has paid a great deal of attention to unpacking the logic of the programme to clarify what it would like to see change and to determine what outcomes, and TMEA’s contribution, can reasonably be measured. This approach supports the OECD/WTO’s call for better programme monitoring and evaluation.

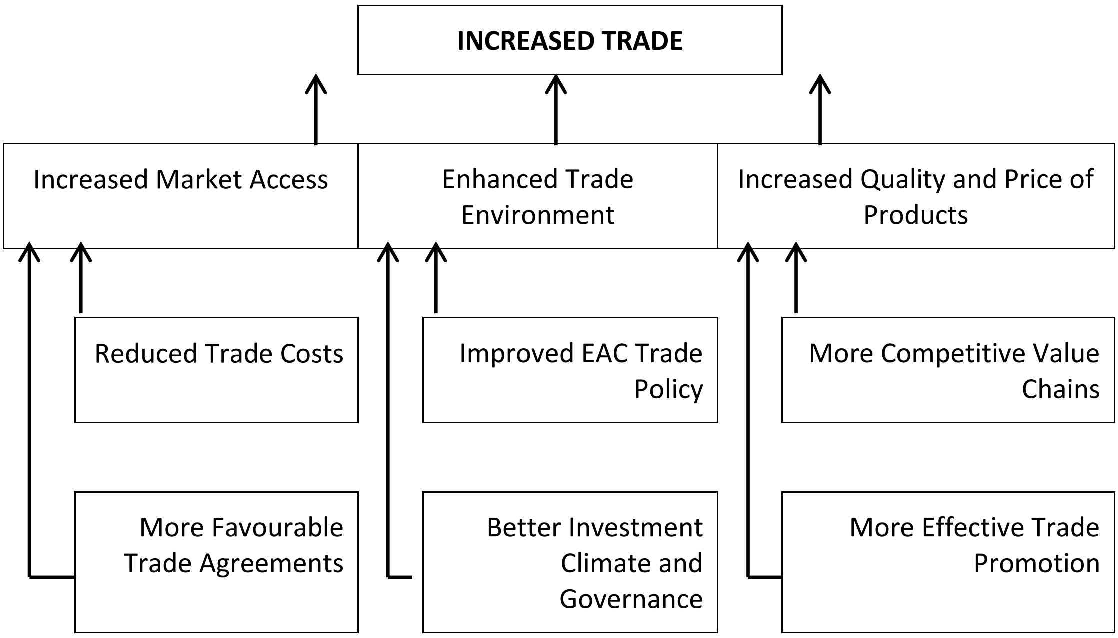
TMEA’s original programme goal was to increase growth and reduce poverty in the East African Community. This was to be measured by two indicators: the rate of real GDP growth per annum in East Africa region and the percentage of women and men living on less then USD$1.25 (PPP) per day in region. TMEA’s purpose was originally formulated in terms of integration and competitiveness: “Greater regional integration and trade competitiveness in East Africa”. Three indicators were proposed to measure this: total value of exports from the region to the rest of the world, the percentage of intra-regional exports amongst community members as a percentage of total exports, and the average time to import or export a container from Rwanda and Burundi to East African port. The economic growth, poverty reduction and increased trade indicators were poor measures of programme performance since the link between what TMEA is doing and these changes are far apart. The closest relationship between what TMEA is doing and what it would like to see change occurs at the third purpose level indicator - the average time to import or export a container from Rwanda and Burundi to East African port.

As a consequence of asking hard questions about its programme logic, TMEA has developed a theory of change that better articulates the overall goals and purposes of the programme. A revision of the overall results framework will follow. TMEA’s strategy spans the following three areas:

1. Increased market access;
2. Enhanced trade environment; and
3. Improved quality and price of products

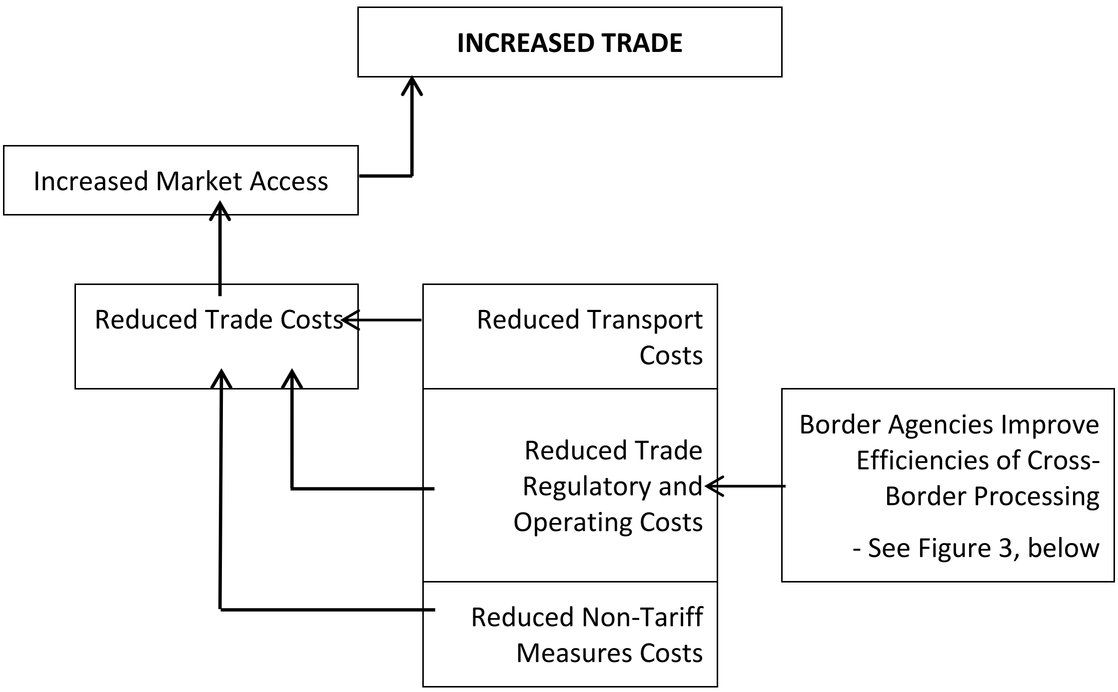
Within the three broad areas, TMEA’s strategic focus is narrower (Figure 1) as it is not feasible to do everything – TMEA is supporting changes that are necessary but not sufficient to increase trade. Numerous other interventions also contribute to increasing trade.

Figure 1: TMEA's Strategy



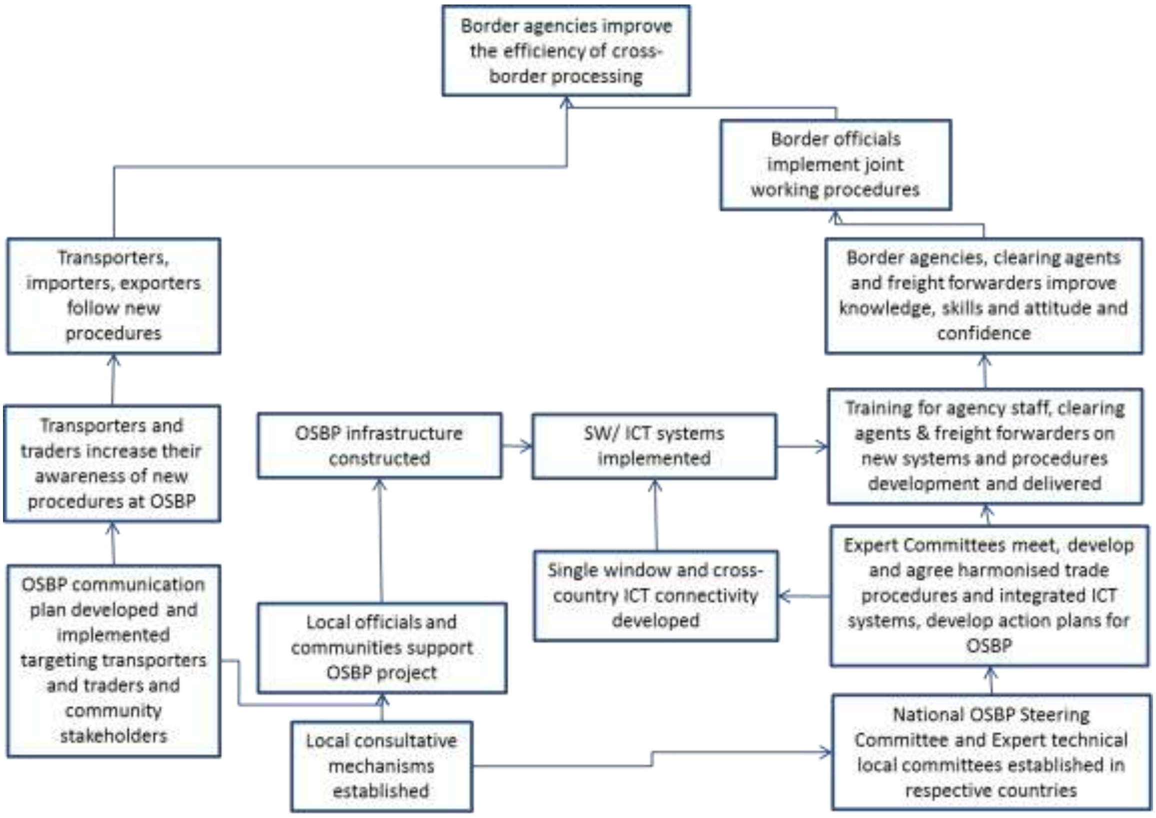
Within this overall strategy, TMEA uses a series of nested logics or results chains to describe how individual projects contribute to the overall strategy. Figure 2, below, provides an example of how a specific project, in this case one that seeks to improve border agency efficiency, contributes to broader outcomes (i.e., reduced trade regulatory and operating costs), impacts (i.e., reduced trade costs) and one of TMEA's broader objectives (i.e., increased market access).

Figure 2: Example of nested logic



Each TMEA-supported project has its own logic that describes how its activities contributes to prescribed outputs, how these are expected to contribute to short- and medium-term changes and finally reaching the end of project outcome. Figure 3, below, illustrates how this logic workers at the project level.

Figure 3: Example of project logic – one stop border posts



TMEA's Results Unit, which is located within the Strategy and Results Team, has six staff. The team has overall responsibility for developing, implementing and maintaining the monitoring, evaluation and learning (MEL) systems and processes. TMEA programme staff and partners, those organisations that TMEA supports to implement projects, play a key role in the operationalization of these systems and processes.

The TMEA programme investment committee, which consists of public and private representatives from the region as well as its financial sponsors, have approved the MEL system as a common framework for all TMEA activities and projects.

The MEL systems and processes seeks to:

- Ensure TMEA has a clear story about what it would like to see change, how, why and what TMEA and partners are doing is expected to contribute to these changes;
- Have relevant and timely information to assist implementers and decision makers to adjust projects in response to implementation issues, what is working and not working and improve the chances of success; and
- Have sufficient evidence to be able to explain what happened, how and why and TMEA's contribution to changes to the extent that a reasonable person would accept.

TMEA is piloting the DCED Results Measurement Standard on a small number of projects (such as the one-stop border post project illustrated in Figure 3, above), believing that applying the Standard gives credibility to its results, "and brings recognition as being seriously engaged in the results measurement agenda". All TMEA funded projects are required to articulate the anticipated change process from the production of outputs (e.g., a one-stop border post is constructed), through to the desired short-, medium- and long-term outcomes or changes. Following the drafting of the results chain, a monitoring plan is developed that articulates indicators of success, data collection and analysis methods, baseline information, responsibilities and frequency of reporting. The methods selected depend on what is needed and preference is not given to any one method. Monitoring plans for projects where the Standard is being piloted are more extensive and seek to monitor from outputs through to the end of project outcome.

1.2. Lessons for results measurement

TMEA has made a number of strategic investments into results measurement. It has recognised the importance of telling a clear story about how and why it supports change and how it can work with its partners to guide, monitor and measure this change. It has also invested in personnel who are specifically assigned to the task of monitoring, evaluation and knowledge management for TMEA and its programme partners.

The process of laying out the logic and the many nested projects that exist for a large programme such as TMEA has been beneficial. It has enabled TMEA staff to debate issues, clarify TMEA's strategy, increase its focus and discuss issues of attribution more thoughtfully. At a project level, the development of results chains is also valued by many partner organisations. It has enabled TMEA and partners to deepen their relationship and develop a common understanding of the project and what it is trying to achieve. TMEA and partners learn from each other in this process.

Laying out the higher level logic has also highlighted where TMEA is making assumptions that could significantly affect its success. For instance, many TMEA projects seek to reduce the time to complete import and export transactions. Time costs money and reducing time is in turn expected to reduce the costs of importing and exporting goods. If time delays are reduced it is assumed that transporters will save money and that the transporters will pass on these savings to the importers and exporters. If importers and exporters save money, then it is assumed they will productively use that money to reinvest or grow their business and further increase trade. However, if transporters do not pass these savings on, perhaps due to an uncompetitive transport sector, then the causal chain is broken. TMEA is funding research to provide insights into the assumptions that time savings will positively influence the price to transport goods.

TMEA appears to be squarely facing the challenges associated with linking programme results with desired high-level change. Donor and development agencies are often under pressure from their political and managerial overseers to ensure all the programmes they support are clearly linked to the achievement of broader development goals, such as those contained in the Millennium Development Goals. However, this often results in relatively meaningless logical frameworks in which all programmes claim to lead to growth, better incomes and jobs for poor women and men, and less poverty. TMEA is looking for high-level impacts that make sense in terms of trade reform and regional integration. This requires a logical framework that does not have such large leaps in logic between the different levels. It is also useful to establish a programme logic that is not loaded with too many outcomes or assumptions.

Developing robust links between programme interventions and high-level development impacts is essential for a large, multifaceted programme such as TMEA in which trade and regional integration are being supported. However, it is also important when designing these programmes, in order to demonstrate that support for this aspect of business environment reform will indeed a sustainable, pro-poor result. This requires a thorough understanding of the dynamics of trade in the region as well as the mechanisms affecting growth and poverty.

TMEA is currently funding more than 170 projects. This makes it difficult to implement quality monitoring and evaluation practices on every project. TMEA's approach of supporting and funding other organisations to implement projects also means that M&E capacity development of partner organisations is required. This can take significantly more resources (i.e., people, money and time) than TMEA has. Therefore, TMEA is required to be pragmatic in what can be attempted and continues to learn about the scope of what is possible.

TMEA's trialling of the DCED Results Measurement Standard has helped to provide a common foundation, which is the articulation of results chains, to its monitoring, evaluation and learning practices. However, it has not been feasible to apply all control points of the Standard on all TMEA-funded projects. Resource requirements, the size of the TMEA portfolio and implementation model are constraints. As such, TMEA has different levels of depth to its MEL practices. In some cases, only outputs are monitored, whereas on other project outputs and short-term outcomes are monitored. In the best situations, outputs through to end of project outcomes are monitored. Even for some of the projects where the Standard was to be applied, TMEA has found that obtaining data for some outcomes is not cost-effective. Therefore, only the most relevant outcomes are monitored.

Some outcome monitoring information is now being generated from select TMEA projects, enabling TMEA and its partners to determine whether the expected changes are occurring and to take action where necessary. For instance, TMEA supports some business membership organisations to implement e-portals disseminating information about import and export requirements. The project assumed that traders would use the e-portal and they would find it useful. However, early analysis of monitoring data has shown that fewer than expected traders were using the e-portal. Following this the business membership organisation supported by TMEA undertook a survey of traders to find out why and adjusted its implementation activities to increase awareness of the e-portal and address issues reported by traders.

TMEA's selective approach has benefits and weaknesses. On the positive side, it enables TMEA to pilot good practice MEL to demonstrate what is possible with the aim of increasing buy-in from stakeholders. However, it may also be difficult for TMEA to demonstrate its contribution for some aggregated outcomes.

TMEA appears to be promoting the sustainability of its reform efforts in a number of ways. The first and most obvious way is through building the capacity of public, private and civil society actors to participate in reform processes. This includes the identification of reform needs, the design and implementation of solutions, and the monitoring of change.

The second way sustainability is encouraged is through the use of a monitoring and evaluation system as a mechanism for learning. Programme partners are supported in their efforts to design reform programmes based on a clearly presented logic, or results chain. They are encouraged to think about the systemic changes required to achieve the desired results and to learn from and reflect on intermediate results and findings.

Acknowledgements

Simon White prepared this case study. The assistance and support of Donna Loveridge (TMEA) in sharing key documents and providing comments is gratefully acknowledged.

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2. Measuring the Results of Donor-Supported Tax Reform – The case of donor-supported tax reform in Nigeria (GEMS3)

Taxation is an important exchange between government and private enterprise. It provides the means through which governments are able to fund their activities, while influencing the behaviour of the private sector through the use of incentives and penalties. For many emerging enterprises, the fear of taxation keeps them informal and hidden from official observation.

Tax is central to the business environment as well as to the political accountability mechanisms of the state. In the past, tax reform typically focused on the short-run objectives concerned with adjusting tax rates and increasing revenue. However, from a business environment perspective, tax reform focuses on the longer-term concerns affecting economic growth and investment. Donor and development agencies support tax reform for a variety of reasons. These include:

- Increasing the sources of taxation;
- Broadening the tax base to include micro and small enterprises;
- Reducing the tax burden for individual tax-payers; and
- Strengthening political accountability processes.

Thus, donor and development agencies work with governments to streamline their tax systems, lower the barriers for firms to participate, encourage foreign and domestic formal investment, widen the tax base, and set the conditions necessary to lower the per-business burden.

Writing for the World Bank Group, Bruhn (2011) describes the challenges of measuring the effects of tax reforms on economic outcomes. Overcoming these challenges "involves extensive data requirements, non-uniform reporting practices, identification problems, and a wide range of imperfect measures and methodologies". She cites several studies that link tax reforms that focus on reducing corporate tax rates to increases in investment and formal firm creation. While less is known "about the effects of reducing compliance costs", a few studies have begun to indicate evidence of a link between tax simplification and an increase if firm creation and sales.

Donor and development agencies that support BER, focus on tax reforms to contribute to increased private investments and rates of formal firm establishment, along with increases in business turnover and employment levels. These enterprise-level changes enhance the capacity of the private sector to contribute to economic growth and poverty reduction.

2.1. The case of donor-supported tax reform in Nigeria (GEMS3)

In Nigeria, the World Bank and the United Kingdom's Department for International Development (UK Aid) fund the Growth Employment in States (GEMS) programme. The Nigerian Federal Ministry for Trade and Investment is responsible for implementing the programme, which began in 2011. This programme aims to create jobs and increase non-oil growth in specific value chains. UK Aid has provided a grant of £90 million and the World Bank a concessionary loan of US$160 million.

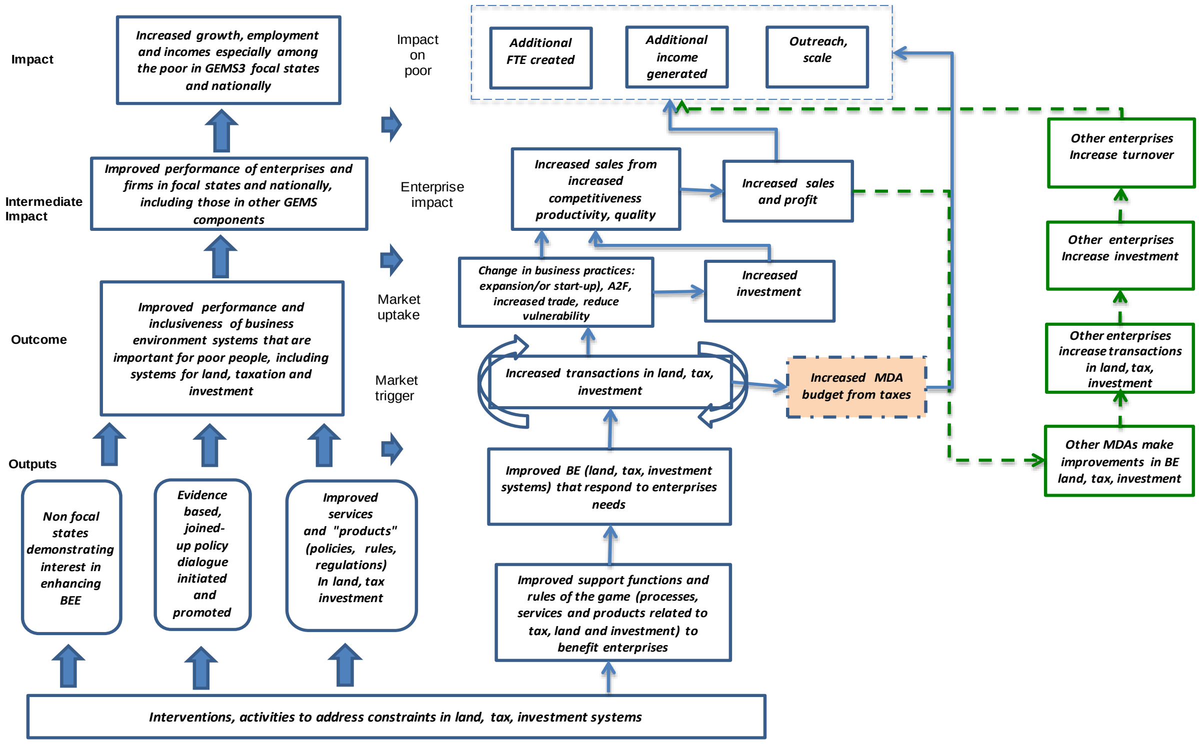
GEMS indicates it will achieve an overall internal rate of return of 48 percent. A key target is the creation of at least 100,000 jobs directly in the selected sectors. The programme targets at least six economic sectors and aims to support small and medium-sized enterprises (SMEs).

While GEMS has four broad programme themes, the third of these, GEMS3, is entitled "Support Improved Business Environment". This is a five-year programme, which is due to conclude in 2015.

GEMS3 seeks to improve the environment for doing business in Nigeria, especially in land, taxation and investment, so that these markets will work better for the poor. The GEMS3 business model states that these improvements in doing business will ultimately lead to lasting improvements in economic opportunities for the poor, especially women.

GEMS3 has an overarching framework (i.e., logical framework) that cuts across all GEMS3 activities. This is the overarching framework for reporting results in GEMS3. See Figure 1, below. It summarizes the basic causal steps that lead from Project outputs to the achievement of the GEMS3 impact.

Figure 1: GEMS3 Logical Framework



This framework has a number of nested results chains that respond to GEMS3 specific interventions (i.e., land, tax, investment). Figure 2, below, provides a summary of the anticipated impact of the GEMS3 programme.

Figure 2: GEMS3— Anticipated Impact
By the end of the programme in 2015, over 860,000 enterprises will have directly benefitted from GEMS3 interventions by receiving land registration, tax or other relevant certificates; this number almost doubling in 2017. GEMS3 will have increased women's share of income and employment opportunities, and increased women's voice and leadership in business in at least 12 states by 2015, with a total of 1.3 million enterprises experiencing an increase in their income either as entrepreneurs or through employment , of which 751,000 will be poor people and 517,000 will be women. By 2017, this total will increase to two million, with 1.1 million who will be poor people and 752,000 women. The total net increase incomes will be over £142m by 2015, rising to £500m by 2017. A total of 60,100 jobs will be created as a result of GEMS3's actions, rising to 107,00 by 2017. Over 125,000 enterprises will experience an increase in sales by 2015, with this number rising to more than 200,000 by 2017. Around 172,000 enterprises are expected to increase their investment by 8% by the end of the programme, with this figure rising to 270,000 and 13.5% respectively two years after that.
SOURCE: GEMS 2012, *GEMS3 Impact*, GEMS website accessed 29 January 2013 (no longer available)

The GEMS3 work in tax reform attempts to support systemic change in the way taxation is governed and complied with. The Investment Climate Surveys, Doing Business assessments and the work of the Foreign Investment Advisory Service have all indicated that tax constitutes a significant barrier to investment in Nigeria. In the World Bank's Investment Climate Survey, tax rates were identified as a major constraint by 37 percent of businesses overall, with 27 percent specifically identifying tax administration as a major constraint. Vague tax provisions, multiple tax instruments, arbitrary implementation of tax laws, limited opportunities for redress of taxpayers' grievances, and laws that give excessive discretion to tax authorities trouble both investors and deter potential investors.

GEMS3 works with government agencies to increase their internally generated revenue by improving the coordination, transparency, accountability, and technical quality of business policies, laws and regulations.

GEMS3 also works with the business community to stimulate business owners to demand better tax policy, administration and information. GEMS3 works with civil society organizations and business membership organisations (BMOs) to build their capacity to advocate for enhanced public-private dialogue (PPD) processes, fostering greater inclusiveness for poor business owners in the policymaking process.

Through its support for tax reform, GEMS3 focuses on:

- Harmonising local and state taxes: By 2015, all local government authorities in the 12 programme states will have harmonised tax policies and state and local tax policies will have been harmonised in at least four states.
- Enhancing revenue administration accountability and governance in at least eight states. These measures represent the next stage of improvement beyond the initial tax harmonisation stage.
- Establishing a permanent tax policy unit reporting to the Federal Minister of Finance. This will be completed by 2013.

The main outcomes of the GEMS3 tax reform programme are to support improvements of the market systems in which taxation occurs by shifting the ways in which government at local, state and federal levels work with the private sector, as represented by BMOs. This will largely be measured through an increase in the level of tax compliance among SMEs.

Figure 3, below, presents the results chain for the GEMS3 harmonising taxes intervention.

Figure 3: GEMS3 Tax Reform Intervention Area Results Chain

<table>
<tr><td>IMPACT ON POOR</td><td>Additional full-time-equivalent jobs</td><td>Additional income generated</td><td colspan="2">Increased scale and outreach</td><td>Reduced vulnerability to risk</td></tr>
<tr><td>INTERMEDIATE IMPACT</td><td>Changes in business practices</td><td>Increased competitive-ness</td><td colspan="2">Increased sales and profit</td><td>Increased investment</td></tr>
<tr><td rowspan="2">OUTCOMES</td><td colspan="5">Enterprises increase compliance</td></tr>
<tr><td colspan="4">LGA increase transparency on tax system and processes</td><td>More friendly tax laws and regulations developed</td></tr>
</table>

OUTPUTS	LGA launch tax information centres	LGA introduces user-friendly payment tax system	Governor submits new harmonised tax bill	Groups/SAVI lobby on the bill	LGAs and states monitor tax practices	LGAs and BMOs dialogue on tax issues
KEY ACTIVITIES	Supporting LGAs with tax info services	Supporting LGAs to streamline tax payment system	Supporting LGAs harmonise and plan tax portfolios	Facilitating partnership with SAVI to lobby for passing the bill	Supporting LGAs to conduct periodic assessments on the impact of policies	Supporting BMO and LGA capacity building on PPD
			Supporting the LGA ministry to improve capacity in reforming tax			

The aim in this intervention is to streamline local taxes, levies and charges to reduce the burden of "multiple-taxation" on business and citizens. About ten percent of taxes are collected at state, local levels. However, there are, serious problems of multiple-taxation, which is more prevalent at the state and local levels. Low rates of tax compliance result from the complexity and high costs associated with compliance, the multiplicity and duplication of taxes, the lack of a standardised tax assessment method, the lack of affordable dispute resolution methods, and the unavailability of information on taxes.

The intervention works on addressing four key inter-related issues:

1. Legislation review by building governments regulatory capacity and its capacity to manage the administration of the tax systems; introducing strategic planning processes; and building multi-stakeholder teams in local government.
2. Improvement of the tax payment system, through the widespread use of banks and point of sales;
3. Mechanisms for dialogue and other supporting functions by supporting public private dialogue mechanisms and work through BMOs.
4. Information and feedback mechanisms as a management instrument for bringing the administration closer to private sector and civil society. Through information and complaints centre, all citizens can ask for information or file complaints by letter, phone or SMS.

It is expected that these changes in the business environment, improved legislation and better services to citizens would lead to changes in (and capacities of) the private sector to take up, use and ultimately benefit from these services. A benefit from harmonised taxes legislation would be reflected in income saved by paying less illegal taxes. It is believed that this is mostly to benefit the poor, women and vulnerable.

It is anticipated that these changes will trigger a shift in behaviour of enterprises, with more of them trusting the business environment, and deciding to invest and expand their operations. This would lead to increased competitiveness, increased sales and profits.

The overall Impact of the programme's tax reform efforts will be measured in terms of its effect on the poor. The principle measures for this are:

- Number of additional full-time equivalent jobs created;
- Additional income generated;
- Scale and outreach of the reforms; and
- Reduction in the vulnerability of the poor.

GEMS3 work will contribute to these latter higher-level objectives and report against them, but will not claim direct attribution at these levels.

Measuring results for this intervention is challenging because at higher levels, above outcomes, GEMS3 has no control. In general GEMS3 uses difference in difference to determine the extent to which results can be attributed to programme interventions. This is a quasi-experimental technique that measures the effect of an intervention at a given period in time. It estimates the differences before and after programme interventions as well as the differences within specific groups, based on established treatment and control groups. An intermediate assessment is done once the outputs have been achieved to identify the potential of this intervention to achieve its outcomes and any early signs of impact to be captured. The impact of the intervention is assessed within two months after the intervention has ended.

GEMS3 is currently conducting a baseline study, which involves approximately 1,650 face-to-face interviews in six industry sectors: leather, hospitality (hotels and restaurants), information communication technologies, entertainment and creative industries, wholesale and retail, and agribusiness. A private contractor will conduct the survey and liaison with the National Bureau of Statistics and the State Statistical Offices has been established to obtain official administrative data on the number of registered firms, employment, investment, etc., by state and industry. The survey is conducted in the states GEMS3 operates within as well as in a number of control states in which GEMS3 has not been active.

The sampling methodology will generate a representative sample that can substantiate inferences for selected sectors within the economy. It will produce a minimum 7.5 percent precision for 90 percent confidence intervals for estimates of population proportions of all variables at the industry sector level as well as a mean log of sales at the industry sector level.[1]

2.2. Lessons for results measurement

The GEMS3 case clearly illustrates the challenges of a program working on improving business environment, but aiming to impact on the levels of poverty in Nigeria. This poses a number of challenges to its results measurement system. On one hand, for most interventions the pathway to reducing poverty will be long, well beyond the programme's life, and not so obvious. On the other hand, the results measurement system needs to show clearly how impact will be achieved, measured, and how it can be attributed to the programme's activities.

GEMS3 is a pilot among a few worldwide programmes working to reform the business environment using the Making Markets work for the Poor principles. While the results chain for tax intervention presents a logic that connects the key activities to higher-level outcomes and poverty reduction impacts, this presents a challenge to the ways in which programme impacts can be measured beyond the outcome level. All GEMS3 interventions are designed on the assumption that once a better legal framework and related services are in place, enterprises will be willing to take more risks, invest and grow. Only through this growth will more jobs be created and more income generated for poor people. However, the pathway to these wider benefits is long and not much robust evidence from other programmes exists to prove this will happen and to what scale.

The programme is in its early stages. It has only recently finalised the design of its interventions and is in the early stages of implementation. Projections are based on assumptions that still need to be tested.

[1] The log of sales is taken as the most important quantitative variable from the survey because it is the variable most commonly used to assess establishment performance.

To overcome these problems GEM3 uses an action research approach. It has put in place a measurement system that is both quantitative and qualitative to better understand what triggers behaviour change of enterprises. Through quantitative studies and specific targeted case studies GEMS3 will learn, understand, test and validate its assumptions. This hopefully will ensure enough information is collected for interventions to be adjusted on time and impact on the poor to still occur as planned.

Acknowledgements

Simon White prepared this case study, with the assistance and support of Mihaela Balan who is responsible for the programme's monitoring and evaluation.

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3. Measuring the Results Of Donor-Supported Business Advocacy and Public-Private Dialogue – The case of ENABLE Nigeria

In order to promote systemic and sustainable reform of the business environment in developing economies, many donor and development agencies support the establishment and strengthening of public-private dialogue (PPD). Helping domestic partners (i.e., government, business, workers and other civil society organisations) to more effectively engage in reform processes acknowledges the political economy of the business environment and the contests that lead to an agreed reform agenda.

Supporting PPD can occur at a number of levels. This includes support to government ministries, departments and agencies to develop a more open and interactive approach to their business environment reform (BER) efforts. Governments can be encouraged to consult more intensely and frequently with the private sector and their representative organisations, generally referred to as business membership organisations (BMOs). Technical assistance and training is often provided to help government instrumentalities incorporate PPD in their policy-making and reform processes.

BER-support programmes also work with the non-state sector in their efforts to support PPD. This involves support to BMOs in their efforts to advocate for reform and to participate more effectively in PPD processes. Donor and development agencies have supported the establishment of advocacy funds that help BMOs advocate for reforms based on clearly researched evidence. They have also supported BMOs to broaden their membership base and become more sustainable and a better representative voice for the private sector. Donor-supported programmes have also supported the establishment of facilitation mechanisms that seek to bring key actors together and support systemic change.

Better PPD should lead to a better business environment for private sector development, economic growth and poverty reduction. Through well organised, broadly representative and evidence-based dialogue, the business community should be able to share its concerns with government and to jointly come to an agreement on the priorities for BER. Reforms should be monitored by PPD partners and adjusted where necessary. In general, better PPD processes and mechanisms should lead to reforms that are more sustainable and more strategic. Local actors will "own" the reforms agreed upon, they will be more committed to the achievement of these reforms, and they will be better equipped to participate in the on-going process of responding to new reform needs. Thus, supporting improvements in PPD improves the way local actors participate in the business environment.

A critical challenge when measuring the results of donor-supported PPD is to demonstrate how improvements in the way the public and private sector engage on reform issues does, in fact, produce a business environment that is more conducive to enterprise development, growth and poverty reduction. For some donors, how these actors talk about and act on reform matters may be considered too abstract or moved from other high-priority demands (e.g., to reduce corruption and rent-seeking, remove the steps required to register a business). However, when donors are concerned about the sustainability of their programmes over time and the capacity of domestic partners to learn from and continue reform efforts beyond the programme, then the need to focus on the processes that underpin sustainable reform efforts becomes more relevant. This seems to require a results-measurement system that spans the time required to demonstrate how the frequency and quality of dialogue improves the quality of reforms and ensures pro-poor reform outcomes.

3.1. The case of ENABLE Nigeria

ENABLE is a four-and-a-half-year, £11.02m UK-funded business advocacy programme implemented by Adam Smith International and The Springfield Centre. ENABLE supports the creation of a stronger BER system that will generate a better business environment by:

- Strengthening private sector demand for reform by supporting BMOs to engage in effective advocacy on behalf of the private sector;
- Increasing the quality and quantity of reform by building the ability and willingness of government ministries, departments and agencies to dialogue with the private sector;
- Strengthening the role of the Nigerian media as a driver and supporter of business environment reform, a channel for information, and a platform for debate and discussion; and
- Improving access to, and supply of, legal, policy and regulatory information and other services that serve to stimulate and inform dialogue.

Overall, ENABLE seeks to create change that is self-replicating and reinforcing (i.e., sustainability), while promoting widespread replication of innovations and new practices (i.e., scale). The programme follows the Making Markets Work for the Poor approach that focuses on the systems in which enterprises operates. ENABLE often refers to the “business environment system” in which it works. Advocacy and dialogue are seen as crucial to shaping the business environment’s affect on the poor, as producers, employees and consumers.

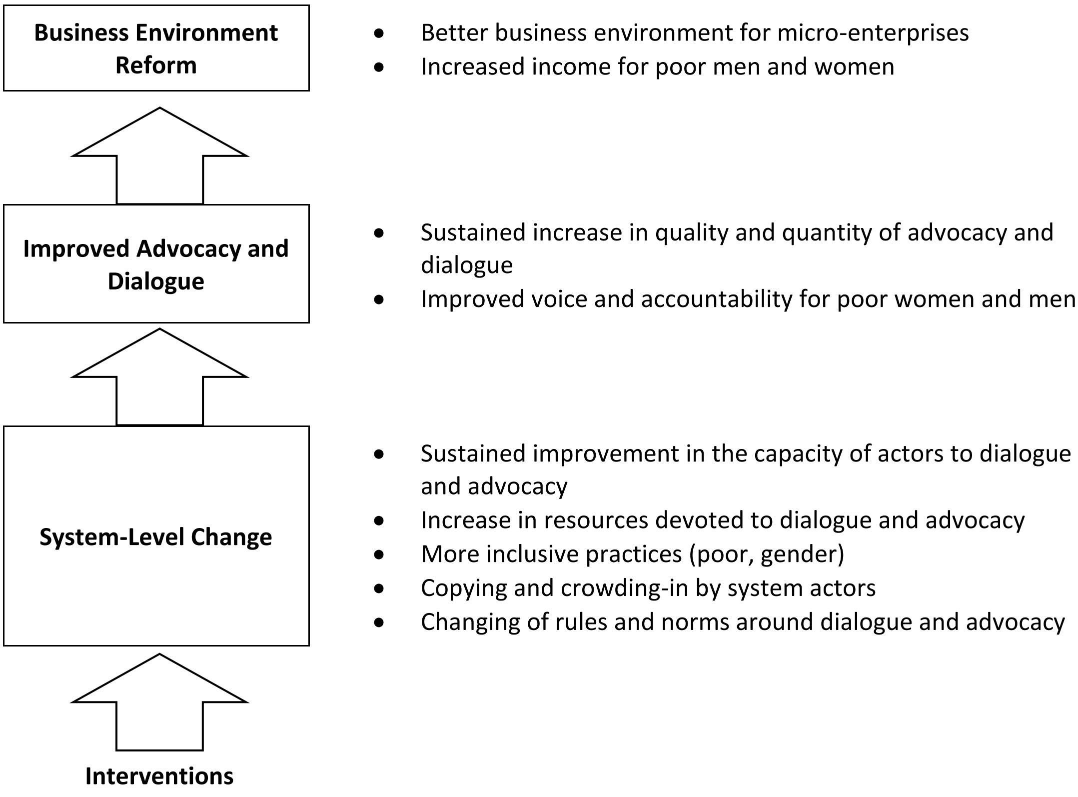
ENABLE facilitates systemic changes by building the capacity and incentives of local actors to engage in advocacy and dialogue by themselves or to supply the support functions and rules necessary for the advocacy and dialogue ‘market’ to work effectively.

ENABLE has established a system for monitoring and measuring programme interventions in four areas:

1. Delivering sustainable impact: programme partnerships and interventions are designed and implemented to deliver a sustainable impact whereby the programme leaves behind a more functional BER system. This is achieved by changing the capacity, incentives, relationships, and behaviours of local actors in the business environment system.
2. Leveraging local resources: the programme works in partnership with local partners that are expected to contribute their own resources to achieve jointly agreed objectives. Where necessary, ENABLE works to address the underlying financial constraints facing partners (e.g., providing a BMO with the skills to build its membership base).
3. Delivering impact at scale: all programme interventions are designed and implemented to deliver impact at scale. This is achieved by catalysing system-wide changes that embed knowledge in local institutions so that it can be passed on to others, working with actors that can apply the successful results (such as apex organisations), creating regional nodes of excellence, promoting linkages and peer-learning, and encouraging copying of successful innovations.
4. Monitoring and managing for results: the programme has designed an impact assessment system to provide management with timely and relevant information, which will inform decision-making and resource allocations.

Figure 1 provides a general overview of the ENABLE results framework (see below).

Figure 1: ENABLE Results Framework



SOURCE: Adam Smith International and Springfield Centre (2013) *Making Business Membership Organisations Work for the Poor; Case Study*, ENABLE, Nigeria

The first level of change in the results framework is "System-Level Change". There are five result areas identified at this level, which have been designed to tackle what ENABLE describes as "the systemic constraints preventing BMOs from advocating more effectively":

1. Sustained improvements in the capacity of BMOs to effectively advocate and participate in the PPD: ENABLE measures this by the number of BMOs that are able to identify issues, plan an advocacy campaign, engage stakeholders, mobilise the media, and advocate to government. A BMO diagnostic tool has been developed to assess BMOs and to track changes in BMO performance.
2. Increase in BMO resources devoted to advocacy and PPD: this is measured by the amount of their own resources that BMOs invest into research and advocacy.
3. More inclusive practices: this is measured by the increased involvement of women in BMOs and by locating programme interventions in areas and sectors where there are a high proportion of poor people.
4. Copying and crowding-in by system actors: ENABLE describes the number of platforms that have been established for PPD and aims for an increase in this number during and after its programme interventions.
5. Changing rules and norms around advocacy and dialogue: this affects the way dialogue is embedded in the system (e.g., becomes part of the policy-making process in

government), the extent to which it is open to broader participation, and the way it is informed (e.g., backed by research).

The second level of change is at the Purpose-level where the attributable-impact of the programme is: “improvements in the level and quality of private sector advocacy and the effectiveness of public-private dialogue”. There are two ways this impact is measured.

The first is a “sustained increase in the quality and quantity of advocacy and dialogue”. The number of research and advocacy projects and “dialogues” are the indicators used to measure this.

The second is: “improved voice and accountability for poor men and women”. Because ENABLE is concerned with “pro-poor” BER results, the issues of voice and accountability are important. ENABLE stresses that this is not only about working with organisations that contain poor women and men, but also about working with partners that are strategically positioned to influence the services to the poor, such as the Fertilizer Suppliers Association of Nigeria. Pro-poor outcomes are also created by the selection of the sectors in which the poor are reliant (e.g., agriculture), the location of the programme’s interventions (e.g., rural areas and northern Nigeria), and a strong commitment to ensuring the involvement of women in the programme’s activities.

The third level of the programme is at the Goal level. Here, the attributable-impact of the programme is: “improvements in the policy and regulatory environment for doing business”. The result areas focus on how improvements to the business environment affect micro-enterprises and the incomes of poor women and men.

ENABLE has formulated a series of “impact logics” or results chains that map the logical sequence of each programme intervention and describe how its activities trigger change that leads to high-level impact. These impact logics are embedded in the overall programme logframe, which allows the progress of each intervention to be measured according to a common set of indicators. This avoids duplication and the use of parallel measuring systems.

Impact logics form a part of ENABLE’s regular monitoring. They are used in internal weekly meetings to discuss progress and respond where necessary when anticipated changes have not occurred. This helps staff to share information better and compare the work on different programme components in different regions.

ENABLE has appointed a full-time Impact Assessment and Communications Manager who supports the programme team, preparing initial drafts of the results chains and sharing them with the individual component managers to be finalised. Overall responsibility for finalising and updating the results chains lies with the individual component managers who are responsible for these results chains.

Once the results chains are drawn, indicators are set for each of the different levels in the results chain. Each box in the results chain has at least one indicator set against it. In the measurement plan, the Means of Verification specifies how information on each of the indicators will be collected.

ENABLE encountered two major challenges in developing its impact assessment framework.

The first major challenge was found in the “rather amorphous” nature of the changes the programme promotes. There is a strong qualitative element to many of these changes and it can be difficult to know what to count. For example, when does a dialogue count as substantive. To tackle this problem, ENABLE developed scorecards and diagnostic kits, which allow users to evaluate qualitative change in a consistent and transparent way. However, these tools should be complemented with more open-ended, qualitative evaluations in order to avoid missing important details and to capture nuance.

The second challenge relates to attribution. While the most rigorous way of measuring attribution is through the use of a control group to create a quasi-experimental setting, ENABLE did not believe this was applicable in its circumstance. This was because the ENABLE does not select partners on a random basis. The programme works with partners that have clearly accepted the ENABLE approach and are committed to improving their advocacy and dialogue practices. Thus, would create the range of a sample-selection bias. Furthermore, because ENABLE fosters systemic change it becomes difficult to choose a control group that operates outside of this system.

ENABLE has given a great deal of attention to measures that describe the value for money (VFM) achieved by the programme. This value is generally measured in term of the efficiency of the programme and the amount of money or resources the programme has generated from other sources. The following set of VFM indicators have been designed for this purpose:

- Economy indicators: this is determined by the conversion of money into inputs (e.g., consultant time) and is measured by the average fee rate, the percentage of consultants that are local and the overheads as percent of total spend;
- Efficiency indicators: this is determined by the conversion on inputs into outputs (e.g., launch of high-quality BE radio programme) and is measured in terms of the output-level results, the leverage ratio (.e., partner inputs and ENABLE inputs) and efficiency savings vis-á-vis direct delivery approach;
- Effectiveness indicators: this is determined by the conversion of outputs into outcomes and is measured by purpose-level results (e.g., improved dialogue on BE issues) and the cost per person with improved voice; and
- Cost effectiveness indicators: this is determined by the conversion of money into impact (e.g., increased incomes for the poor) and is measured by the goal-level results, the cost per beneficiary and the ratio of increased beneficiary income to total ENABLE spend.

Figure 2, below, presents the achievements the programme has reported on at the Purpose and Goal levels by the end of three years of operation.

Figure 2: Reported Achievements
By the end of its third year in 2012, ENABLE has reported on a number of achievements. At the Purpose level, ENABLE reports that it has “contributed to 20 additional or improved dialogues” At the Goal level, ENABLE reports that is has produced pro-poor impacts by contributing to five cases of business environment reform, which have benefited 719,000 micro enterprises (333,000 women-owned) and a further 4,545,000 micro-enterprises (3,591,000 women-owned) will benefit once policies and regulations already passed are implemented. The September 2012 ENABLE *Value for Money* report indicates that MSME incomes have increased by £11.97 for every £1 of total spend by ENABLE.

3.2. Lessons for results measurement

The ENABLE case provides valuable experience based on three years of operation during which considerable effort has been paid to measuring impact and value for money. Supporting advocacy and dialogue by the business community requires a specific set of programme interventions and monitoring and impact measures.

The ENABLE programme places strong emphasis on the “business environment reform system”. This refers to a core “transaction” or exchange between the private sector (which demands reform) and the public sector (which supplies reform). These transactions are underpinned by a set of support functions and rules (e.g., media, research). Thus, the challenge for measuring the results of reform is to show how the system has changed as a result of programme interventions. ENABLE does this by describing the quantitative and qualitative changes to the way actors engage in reform. For example, the number of structured engagements (i.e., “dialogues”) between the public and private sector are measured over time, along with changes in the way these engagements are planned and conducted (e.g., better planned, more open, better informed). The relevance of the topics under discussion is also assessed. While ENABLE does not prescribe the topics its partners choose to discuss, it typically focuses on those considered to be a high priority for economic development.

The focus on the BER system highlights the sustainability of reform efforts. ENABLE often refers to its approach to reform as a catalyst to systemic change, which once made, will have long-term consequences on the potential of actors to participate more effectively. The programme anticipates that it will undertake a long-term impact study into its interventions, but these have not yet been finalised and will ultimately depend on financial support from UK Aid.

ENABLE’s impact assessment process has a two-fold purpose. First, it is designed to provide robust evidence to donors and other external stakeholders regarding the programme’s high-level impact. Second, it performs a critical role in the design and management of programme interventions.

Measuring high-level impact, such as the number of substantive dialogues convened, is not considered sufficient. For example, it is also necessary to understand the capacity and incentives of local actors to convene and participate in PPD beyond ENABLE’s lifecycle. This requires an impact assessment process that can measure the level of capacity of local partners, the degree of commitment and ownership among key stakeholders, the profitability of commercial service providers (e.g., research institutions), and the institutionalisation of new activities (e.g., initiatives undertaken without ENABLE’s support).

ENABLE describes impact assessment as an integral part of its project planning system. Beginning with the design of programme interventions, ENABLE encourages a coherent and strategic management of its activities. ENABLE ensures that from the outset, every intervention has a clear results framework, setting out how the intervention will contribute to sustainable and systemic change and, ultimately, purpose and goal level impacts. During implementation, the intent is that managers receive the right information at the right time, leading to better decision-making and resource-allocation.

A key tool to achieve this is the impact logic or results chain. Each of ENABLE’s interventions, partnerships and portfolios has an impact logic, which sets out a causal map of expected changes. Change is mapped all the way from initial activities though to purpose level and goal level change.

The programme’s logical framework also serves as the basis of ENABLE’s measurement planning. The impact logic describes each of the key changes that need to occur if an intervention is to achieve high-level impact; the measurement plan measures whether or not this change has occurred in practice. By measuring change along the whole results chain, it is possible to pinpoint blockages or resistance, and managers can take action as necessary.

ENABLE applies a number of recognised best practices in its measurement of high-level impact. This includes the use of baseline information that is collected prior to interventions. This information is based on both quantitative and qualitative indicators, which provide a fuller picture of impact. Furthermore, a range of strategies is used to demonstrate attribution. Here too, the results chain adds value: by measuring change all the way along the causal chain a more convincing account of attribution can be made.

While ENABLE veers away from the use of quasi-experimental approaches, it adopted other strategies to measure attribution, such as the use of detailed case studies that aim to untangle the various factors driving change in partner organisations. The studies attempt to triangulate sources where possible to improve robustness of assessment.

Acknowledgements

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More information

For more information go to: https://beamexchange.org/practice/programme-index/114/

4. Measuring the Results of Donor-Supported Business Registration and Licensing – The case of Minas Gerais in Brazil

Minas Gerais is one of Brazil's the 26 states. It is the fourth largest state in the country and the second most populous. The state's capital and largest city, Belo Horizonte, is a major urban and finance centre in Latin America and is the sixth largest urban agglomeration in Brazil.

4.1. The *Descomplicar* reform initiative

The government *Descomplicar* initiative, meaning, "un-complicate", was launched in 2007 to promote a policy environment that is conducive to economic development. The programme had four goals:

- Improve relationship between state and private sector;
- Simplify regulation and reduce bureaucracy;
- Encourage firm formalization; and
- Promote economic development.

The *Descomplicar* initiative established a series of working groups around specific programme themes:

1. Information campaign: This theme sought to promote the importance of business registration through education campaigns and the distribution of booklets to informal business owners. The media campaign also involved direct work in schools and universities.

2. Bureaucracy reduction: This theme sought to simplify the procedures for starting, maintaining and closing a business, with an emphasis on small and medium enterprises. It included support to all the municipalities in Minas Gerais in the creation of a synchronized business database.

3. Tax guidelines: This theme developed material that described the different conditions for the small and medium enterprises, showing the benefits that businesses receive from government and serves as an enticement to formalization. Government considered it especially important to disclose information on the origin and destination of taxes collected and to create awareness among entrepreneurs of their importance to society.

4. Increased surveillance: Attention was given to educating informal employers about their extra-legal status. State and local governments improved their surveillance of the informal sector and distributed the abovementioned booklets on the importance of formalization and its benefits for the business and for society.

5. Financial barriers reduction: Attention was also given to facilitating access to government-supported credit lines in an attempt to improve access to credit.

Given high levels of informality among firms, a goal of *Descomplicar* was to encourage firm formalization. To this end, the programme conducted a survey of informal firms to obtain information on the barriers to formality from the firm perspective. The most frequently reported barriers identified through this survey were:

- High tax burden;
- Too much bureaucracy;
- High costs of firms registration;
- Lack of financing; and
- Lack of information about benefits of being formal.

One of the first reforms was to simplify business registration through the creation of a one-stop-shop for completing municipal, state, and federal registration procedures at the same time and at the same place (known as "*Minas Fácil*"). Different layers of government mean municipal inspectors don't enforce state and federal registration. Thus, firms can be partially formal, i.e., complying with local laws, but not state or federal laws. However, through the one-stop-shop, firms automatically obtain state and federal registration when they obtain a municipal operating license.

However, despite this initiative, many firms remained informal. Investigations found that many informal firms were not aware of the simplified process and that there was very little information on the benefits of formalization.

4.2. Impact evaluation

In response, the World Bank and the State of Minas Gerais undertook an impact evaluation from 2010 to 2012 to build knowledge on what works and what doesn't when fostering the formalization of firms, and to use this knowledge to refine policies intended to facilitate formalization among firms in Minas Gerais. This project used a randomized experiment to evaluate the impact of the policies implemented under *Descomplicar*. The impact evaluation would help refine *Descomplicar* policies.

The evaluation sought to measure which of the following three interventions is most effective at encouraging firm formalization:

Intervention 1: Information Brochure: Providing information on the costs and benefits of formalization, financing sources, as well as on the simplified registration process.

Intervention 2: Information Brochure + Free Registration: Providing the information above as well as paying registration fees for firms.

Intervention 3: Stepping up tax inspections and enforcements.

If firms formalize as a results of these interventions, it was also possible to measure the impact of formalization on firm performance.

In January and February 2011 the study first conducted an exercise to obtain a list of informal firms located in 605 city blocks. Then, in April 2011, it randomly assigned these blocks into three groups based on the three options described above. Control groups of firms that did not receive any of the three possible interventions were also formed. This allowed for the measurement of spillover effects within blocks by comparing control firms in intervention blocks to firms in control blocks.

A baseline survey was conducted from May to August 2011. A summary of the baseline is presented below in Figure 1.

Figure 1: Baseline data

	Control	Information	Information + Free Cost
Employees	1.1	1.3	1.3
Annual revenue (US$)	24,300	26,100	30,400
Business age (years)	7.8	8.1	8
Female owner	37%	37%	40%
Owner's age (years)	44.3	44.4	44.1

SOURCE: de Andrade, G. H., M. Bruhn and D. McKenzie (2012) *Promoting Firm Formalization in Minas Gerais, Brazil*, Presentation at the CIC – DIME Impact Evaluation Workshop, 14 November

Since assignment to different study groups was random, the baseline characteristics are basically identical. There were no statistically significant differences.

Programme interventions were made from October to December 2011.

Intervention 1: Information Brochure

An 18-page brochure was produced with information on the advantages and disadvantages of formalization (e.g., access to credit, government contracts, taxes - how to calculate). The brochure also described the steps required for registration. The brochure was hand-delivered to each firm, accompanied by a brief explanation and "motivational speech".

Intervention 2: Information Brochure + Free Cost Registration

Along with information brochure, these firms received a letter stating that they don't have to pay fees if they register within the next three months. This was a cost saving to firms of about US$200. Because registered firms are required to hire an accountant to prepare their tax declarations, the programme also provided pro-bono accountants for one year at a cost of about US$1,800.

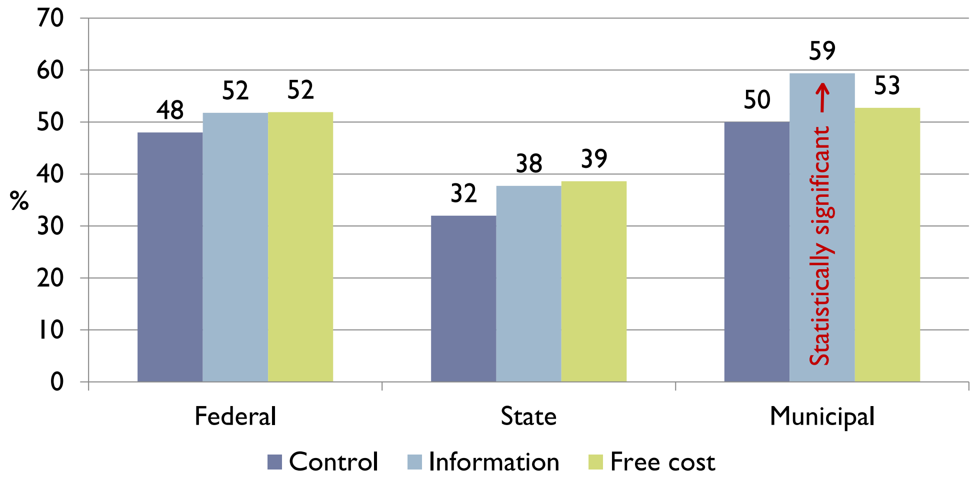
Intervention 3: Stepping up tax inspections and enforcements

In the city and municipality of Belo Horizonte municipal inspectors visited firms to check whether they had the necessary municipal operating license.

Following this, from July to September 2012, a follow-up survey was conducted to evaluate the impact of the interventions.

Figure 2, below, shows the percentage of firms reporting that they have the following types of registration.

Figure 2: Follow-up survey: Impact of Information and Free Cost Interventions (self-reporting on federal, state and local registration)

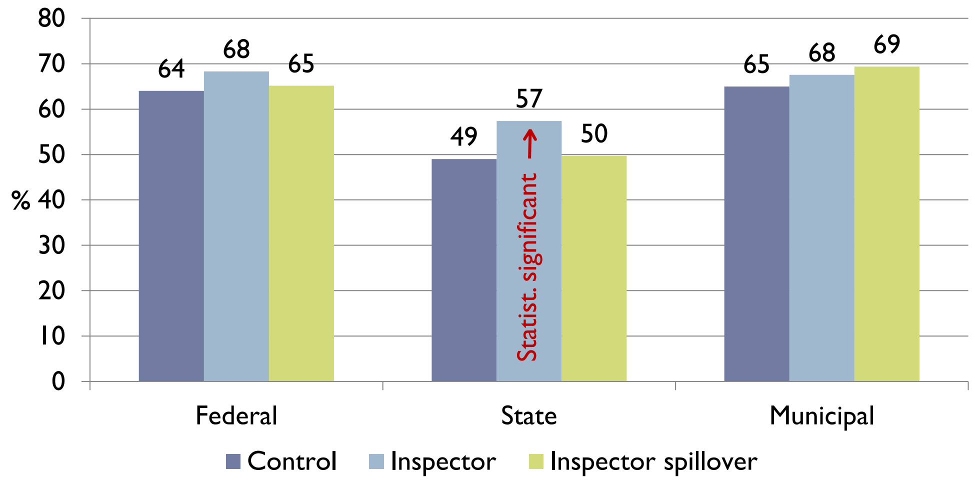


SOURCE: de Andrade, G. H., M. Bruhn and D. McKenzie (2012) *Promoting Firm Formalization in Minas Gerais, Brazil*, Presentation at the CIC – DIME Impact Evaluation Workshop, 14 November

The above figure shows a slight increase in municipal registrations among the firms that received information only, compared with those in the control group and those that received information and the offer for free cost registration support.

Figure 3, below, presents the findings for increased inspection. It shows an increase in state registrations compared with the control group.

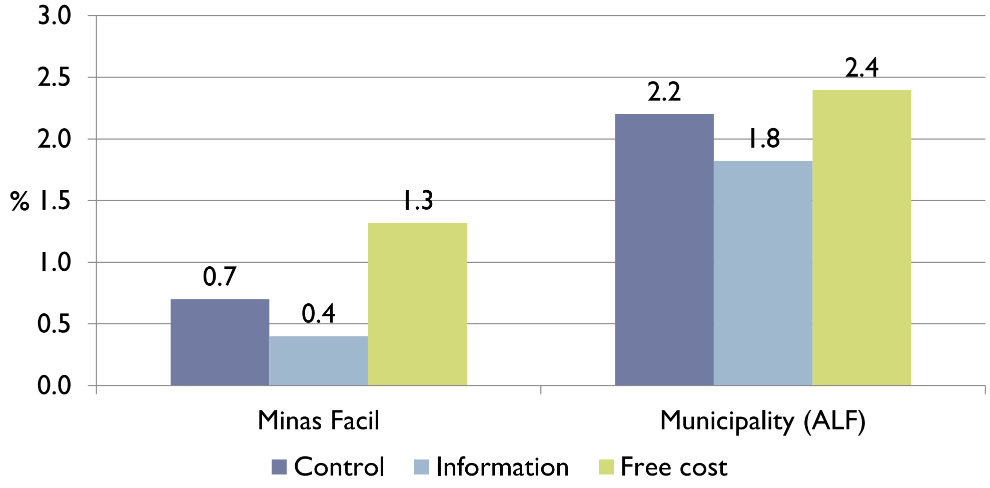
Figure 3: Follow-up survey: Impact of Inspectors (self-reporting on federal, state and local registration)



SOURCE: de Andrade, G. H., M. Bruhn and D. McKenzie (2012) *Promoting Firm Formalization in Minas Gerais, Brazil*, Presentation at the CIC – DIME Impact Evaluation Workshop, 14 November

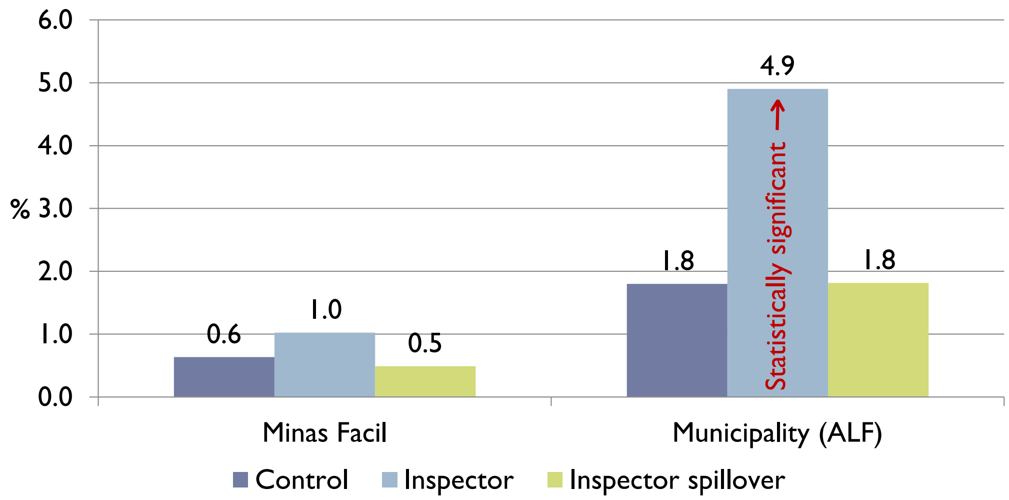
In addition to a follow-up survey data on formalization and other firm outcomes, the evaluation study was able to access administrative records from the local authorities, listing all the firms that had registered with the authorities during the study period.[2] An initial analysis of this data found that only a small number of firms registered in response to the Intervention 1 (Information Only) and Intervention 2 (Information + Free Cost Treatments). See Figures 4 and 5, below.

Figure 4: Local Administration Data: Impact of Information and Free Cost Interventions (self-reporting on registrations)



SOURCE: de Andrade, G. H., M. Bruhn and D. McKenzie (2012) *Promoting Firm Formalization in Minas Gerais, Brazil*, Presentation at the CIC – DIME Impact Evaluation Workshop, 14 November

Figure 5: Local Administration Data: Impact of Inspectors – one-stop-shop and municipality (self-reporting on registrations)



SOURCE: de Andrade, G. H., M. Bruhn and D. McKenzie (2012) *Promoting Firm Formalization in Minas Gerais, Brazil*, Presentation at the CIC – DIME Impact Evaluation Workshop, 14 November

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2 A caveat here is that it is not easy to match the list of study firms to administrative data since (a) firms sometimes register under a different name from the name that is commonly used by the firm and (b) the address is not always spelled and recorded in the same way. However, the accountants who are part of the free cost treatment reported that fewer than five firms have contacted them to take advantage of their pro-bono services so far, also suggesting a very low take-up rate of free-cost registration.

These findings suggest that, according to the assessment of administration data, information and free-cost interventions did not lead to increased firm formalization. Similarly, lowering the costs of registration did not encouraged many firms to register. Inspections did appear to increase registration compliance, but only for municipal licenses.

Despite reforms that make it faster and simpler for informal firms in Brazil to register, the majority of firms remain informal. There are a range of carrots and sticks that governments can use to attempt to bring firms into the formal sector. The experiment described above tested some of the most common ones: informing firms, making it cheaper for them to register, and increasing enforcement of rules. The findings suggest sticks rather than carrots are more effective at getting firms to formalize, but also show limits to this approach.

These findings have led government to conclude that it is less important to try to distribute information to all informal firms in Minas Gerais. Instead, it appears more useful to focus on addressing the other reasons why firms do not register, such as simplifying the procedure for registration further and consider the impact of a high national tax burden.

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