



# **EUROPEAN GOVERNANCE REFORM : THE ROLE OF SUSTAINABILITY IMPACT ASSESSMENT**

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## **1. Introduction**

Governance constitutes one of the most significant challenges confronting both developed and developing countries. Globalisation and governance are intimately linked, and the legitimacy of forms of economic and political governance that evolved in the context of the nation state are increasingly being challenged by the emergence of new relationships between public and private actors at the global level.

Economic globalisation has been accompanied by a sustained growth in world output and an overall increase in global income and welfare. However, this growth has not only been unevenly spread but has been accompanied by structural changes that are altering the ways in which economies and societies are organised and governed. In the developing world, these changes have been, in part, driven by the policy prescriptions of influential international institutions. Beginning in the 1970s there was a shift from a positive or interventionist state towards the regulatory state (Majone, 1997). In economic development policy this was reflected in policies to privatise state enterprises, liberalise monopoly markets and establish appropriate state regulatory structures to tackle market failure. More generally, this period was associated with the promotion of private sector, market-led development, through the pursuit of 'liberalisation' strategies. These neoliberal prescriptions of the 1980s and early 1990s have now been partially superseded by 'social neoliberal' policy orientations with a global dimension, as represented in current concerns with poverty reduction and pro-poor growth, the provision of social safety nets, more efficient forms of domestic regulation, and 'good governance' (Jalilian, Kirkpatrick and Parker, 2002; World Bank, 2001).

Governance is concerned with the organisations and institutional frameworks which together determine the ways in which individual agents interact and arrive at collective decisions. North (1990) makes a distinction between institutions and organisations by using a sporting analogy. Institutions are the rules of the game in a society, i.e. the constraints that shape human interaction. Organisations also provide a structure for human interaction, but represent the players in the game. They are groups of individuals who have a common purpose to achieve certain objectives. Governance is concerned with both the methods ('rules') and processes ('players') of ordering human behaviour. Governance arrangements are judged by the effectiveness and legitimacy that they bring to the decision-making methods and processes of governments, private corporations, firms, non-profit and voluntary organisations.

Many of the institutions that support a market economy are publicly provided, and the ability of the state to provide these institutions becomes an important determinant of economic and social development. The provision of effective public institutions is often referred to as 'good governance' (World Bank, 2002). The remainder of this paper is concerned with 'good governance' issues in this restricted sense of public institutions. The focus is on the use of impact assessment techniques as an instrument for achieving 'better' governance, and is examined in the context of the current debate on European governance matters.

## **2. Impact Assessment and the European Commission**

Impact assessment can be defined simply as a method for identifying the anticipated or actual effects of an intervention. The aim of impact assessment is to improve the evidence base on which decisions are made, and thereby improve the quality of decision-making. In the public sector, impact assessment can be used by policymakers as a means of informing public policy and rule setting choices. Public regulation, whether in the form of policy or rules, can provide 'goods' or 'bads', and it is unlikely therefore, that the case for or against a

regulatory measure can be convincingly made from first principles or on an *a priori* basis. An underlying rationale for impact assessment, therefore, is that public interventions need to be assessed on a case by case basis.

The development of a methodology for assessing the impact of policy or rules interventions is still at a formative stage, and the use of such methods in public decision-making is only beginning to gain acceptance. The case for applying impact assessment at the project level is well established, and the methods of economic impact assessment (cost-benefit analysis) and environmental impact assessment, for example, are widely known. The development of a methodology for impact assessment at the strategic ('policy, plans and programmes') level is at a much earlier stage, however, and has acquired a range of nomenclatures, including strategic impact assessment, regulatory impact assessment, integrated impact assessment, and sustainability impact assessment (Kirkpatrick et al, 2001).

All are concerned with assessing the positive and negative effects of potential (*ex ante*) and existing (*ex post*) interventions at the policy level. The impacts of the intervention under consideration will be recorded in terms of the outcome(s) that the decision-maker is concerned with. In the context of the public sector, the decision-maker may be interested in assessing the economic impact, or social, or environmental impact of the policy measure, which will involve the application of the appropriate method for economic, environmental or social impact assessment. Increasingly, however, policymakers are required to consider the impact of their decisions on economic, environmental *and* social development. In this case, sustainability impact assessment (SIA) will be the appropriate method for assessment.

Sustainability impact assessment (SIA) can be defined as a methodology for identifying and assessing the likelihood and scale of the economic, social and environmental impacts of intervention, in the form of a policy change or rules-measure. The purpose is to ensure that those charged with making policy have the most complete information possible to guide them in their decision-making. To achieve this, SIA should include processes of consultation and participation with stakeholders and other interested parties.

The European Commission has been at the forefront of developing SIA and is already committed to undertaking a sustainability impact assessment of all major new trade negotiations involving the EU. From 2003, the Commission will begin implementing an SIA process for *all* major initiatives which are presented in the Annual Policy Strategy or in the Work Programme of the Commission. This was agreed at the Göteborg (June, 2001) and Laeken (December, 2001) European Councils, where the Community made commitments to implement sustainable development and to establish a tool for sustainable impact assessment.

The current interest in SIA within the European Commission, and more widely, can be explained in terms of the capacity of the SIA approach to address a number of key issues and concerns in the area of public policy formulation and decision-making. These include: the shift towards 'evidence-based' decision-making; the trend towards 'better' governance and governance reform; and the adoption of sustainable development as the overarching objective for public policy. In the case of trade policy SIA's, recognition of the need to 'act globally' has been a further motivation for the use of the sustainability impact assessment approach in decision-making.

### 3. SIA and Trade Negotiations

The EU began its SIA studies of WTO trade negotiations in 1999. The Institute for Development Policy and Management at the University of Manchester was contracted to develop a SIA methodology (Phase I) and to undertake a preliminary assessment of the Seattle agenda (Phase II) prior to the Seattle Ministerial Meeting in Seattle in late 1999. In 2001 a further study was completed which developed the Phase I Methodology. This extended methodology is currently being applied to the Doha Development Agenda (Phase III), where the objective is “to provide an analysis of the sustainability impacts of agreed policy options or scenarios, and to present this analysis in such a way as to give a concrete input for negotiators in their search for a balanced set of policies, including any necessary flanking measures.”

Phase III, which will continue over several years, will consist of a preliminary global SIA (all sectors); a series of detailed sector studies; and a global SIA of provisional agreements. The first year of Phase III (April 2002-March 2003) involves the preliminary global overview study, and detailed sector studies for market access (pharmaceuticals, non-ferrous metals, textiles); environmental services (water and waste treatment); and competition policy.

The Phase I, II and III reports are available on the project website: <http://idpm.man.ac.uk/sia-trade>.

#### The Main Stages in the SIA Process

This section describes the main stages in the SIA methodology, (Lee and Kirkpatrick, 2001).

The main stages in the SIA process are:

Stage 1 : screening and scoping.

Stage 2 : Detailed assessment of proposed measures

Stage 3 : Assessment of alternative mitigation and enhancing measures (ie, optional analysis)

Stage 4 : Monitoring and post-evaluation proposals.

#### Stage 1: Screening and Scoping

The fundamental purpose of these scoping studies is to systematise the determination of the terms of reference for the SIA of each measure, which is to be assessed. This will involve determining:

- The specifics of each trade measure to be negotiated (and of those of its components) which should be submitted to detailed assessment at the next stage in the process. Different types of measures (e.g. tariff reductions, rule changes) may need to be assessed in somewhat different ways.
- The specific scenarios (i.e. potential negotiation outcomes) for each measure/component, which should be analysed in the detailed assessment.
- The criteria by which the significance of the sustainability impacts is to be assessed.
- The country groups and/or individual countries for which the sustainability impacts should be assessed.

- The time horizons over which the impacts should be assessed.
- The cumulative impacts, likely to result from the implementation of the New Round as a whole, which should be assessed.
- The methods, data sources and sustainability indicators to be used, and the consultations to be undertaken, in the detailed assessments and in subsequent stages in the assessment process.

Scoping is expected to involve simplified forms of causal chain analysis (CCA) which help in identifying the potentially important sections of each causal chain which link, in sequence, each trade measure to its eventual, significant impacts. Scoping should also include a preliminary identification of the types of M and E measures that might need to be appraised later in the SIA process, classified according to the individual trade measure scenarios to which they relate, and for the Round as a whole.

### Stage 2: Detailed Assessment

Causal chain analysis is used to trace, both analytically and empirically, the main causal links between each trade measure, its main components and their eventual sustainability impacts. A number of the core sustainability indicators may be subdivided into 'second-tier' indicators. Additionally, in order to capture some potentially important long-term sustainability impacts, a limited number of SIA process indicators may also be used. The impact significance categories and their boundaries need to be defined explicitly and supporting evidence, for the significance 'scores' obtained, will be required.

Detailed assessments will attempt to capture the more important variations in significant impacts within country groupings. This can be done by extending the sustainability analysis to selected, contrasting countries within each major country group being studied, and examining likely major variations within these, according to region and/or socio-economic category.

The main findings of the detailed assessments can be presented at different levels of aggregation – for example, for individual components of a trade measure as well as for the trade measure as a whole; for different scenarios; for contrasting countries as well as for country groups as a whole. These need to be supported by both a textual explanation and an evidence-based justification for the principal findings they contain.

### Stage 3: Assessment of Alternative Mitigation and Enhancing Measures

Given the importance which the Doha Ministerial Declaration attached to the needs and interests of developing countries, and in particular to the vulnerability of the least developed countries, public discussion has focused on the assessment of M and E measures which might be used to mitigate and enhance the impact of trade measures on sustainable development in the developing and least developed countries.

The overall coverage of the measures considered for inclusion, is broadly defined to include:

- Measures which are closely trade-related and which might be built into a WTO agreement itself.
- Closely related side or parallel agreements between WTO member countries, or in regional agreements which may 'nest' within international agreements.

- Collaborative agreements and other joint initiatives between international organisations to clarify the relationship and strengthen the consistency, between international trade agreements and other types of international agreements.
- International and regional initiatives to promote technical cooperation and capacity building in developing countries.
- Measures by national governments to remedy market imperfections, regulatory failures, social inequalities, which are harmful to sustainable development and whose removal could enhance the contribution which trade measures may make to sustainable development.

The range and types of M and E measures that have been identified need to be assessed as the third main stage in the process for full SIA assessment.

The findings of each sectoral assessment, in terms of the end-impacts on sustainable development, should be examined using the detailed causal chain analyses that were developed at stage 2 (detailed assessment), in order to identify where the introduction of M and E measures could have a significant benefit. The most promising M and E options should then be separately appraised for their potential sustainability impact. Criteria for assessing M and E measures should include:

impact on sustainable development: the likely economic, social and environmental consequences of the M and E measures, assessed in terms of either the core or second-tier target indicators, and process indicators, proposed for Phase Three

cost-effectiveness: the size, type and distribution of costs associated with the implementation of the M and E measures

feasibility: the capacity of political, institutional and financial processes for effective implementation of the M and E measures.

The application of these assessment criteria should identify a set of 'best' M and E measures that are cost-effective, feasible and likely to have a significant effect in terms of mitigating the negative sustainability impacts and/or enhancing the positive sustainability impacts, that were identified at the detailed assessment stage.

The assessment of the impact of the 'best' M and E measures on the core economic, social and environmental indicators should then be introduced into the detailed assessment findings, as a modified scenario for the relevant trade measure.

#### Stage 4: Monitoring and Post Evaluation Proposals

There is growing interest and concern, both in the assessment field, generally and in the trade policy assessment field, in particular, that *ex ante* appraisals of proposed new measures should be complemented by an *ex post* evaluation of those same measures after they have been approved and implemented.

Provision for monitoring and evaluating the sustainability impacts of the New Trade Round Agreement, as finally approved, should be considered, therefore, as a potentially important mitigation and enhancing measure for inclusion in the final agreement on the New Round.

The MPE proposal should contain a number of components. These should include provision for:

- Monitoring the implementation of the provisions of the New Round agreement itself (This should draw upon the assistance of the WTO).
- Monitoring and undertaking an *ex post* evaluation of the sustainability impacts of the New Round agreement, as implemented.
- Post-evaluation of the *ex ante* Phase Three SIA studies i.e. comparing their predictions with actual outcomes and explaining any significant differences between them.
- Making recommendations relating to: any implementation problems which have been encountered; additional M and E measures which may be needed to address any significant, unanticipated or unresolved sustainability impacts; strengthening existing *ex ante* and *ex post* SIA methodologies and their use in practice.

There is a substantial, increasing general literature on monitoring and evaluating the implementation of sustainable development strategies, as well as a more specialised literature on the evaluation of the economic, social and environmental impacts of previously adopted trade agreements. Based upon this literature, and the practical experience on which it draws, a number of preliminary suggestions may be made:

- Monitoring and evaluation should engage the interest and commitment of the key stakeholders, in international and national administrations, and within civil society. Particular attention should be paid to the involvement of stakeholders from developing countries.
- Monitoring and evaluation should be both clearly focused and strategic in nature, and avoid the collection and analysis of less important and unnecessarily detailed information.
- Monitoring and evaluation should be sufficiently independent and transparent to ensure the objectivity and credibility of its findings. The findings, including recommendations for improvements, should be published at agreed, regular intervals and be subject to consultation and comment.

The SIA methodology needs to provide an analysis of the sustainability impacts of various policy options or scenarios in a way that is accessible to policy makers and will contribute to the negotiation process. It should also have other, wider uses. These include the use, and if necessary adaptation, of the methodology by other users to carry out their own assessment of the likely sustainability impacts of trade policy proposals.

The methodology also needs to be adaptable to meet the SIA requirements at the different stages in the negotiating process in which the resultant assessments are to be used. In addition, it needs to take account of the real world constraints within which the particular assessment will be prepared. These constraints include: the limited availability of appropriate 'on the shelf' assessment tools; limited availability of appropriate and reliable data for use with these tools; and limitations in time and resources for delivering assessments within the schedules of the trade negotiation process.

The SIA methodology should be sufficiently feasible to allow for different levels of detail, while retaining a comprehensive and strategic level focus of analysis. Given their global scope, SIAs of international trade agreements will inevitably be more 'strategic' than 'specific' in character and relatively small increases in the level of detail and precision in

such assessments can, depending on the circumstances of the particular case, substantially increase their technical data and/or resource requirements. No general rules exist on the 'best' level of detail for assessments. This can only be determined and justified on a case-by-case basis, which should be separately established as part of the 'screening and scoping' stage of the SIA methodology (see above).

Consultation is an integral part of the SIA process, and provides a means by which stakeholders can contribute to the assessment, both as experts and as interested parties. The form and procedures for consultation and participation in the SIA process will also vary on a case-by-case basis, and will need to be determined at the beginning of the SIA.

Each study will need to bring together, therefore, a number of different components (figure 1):

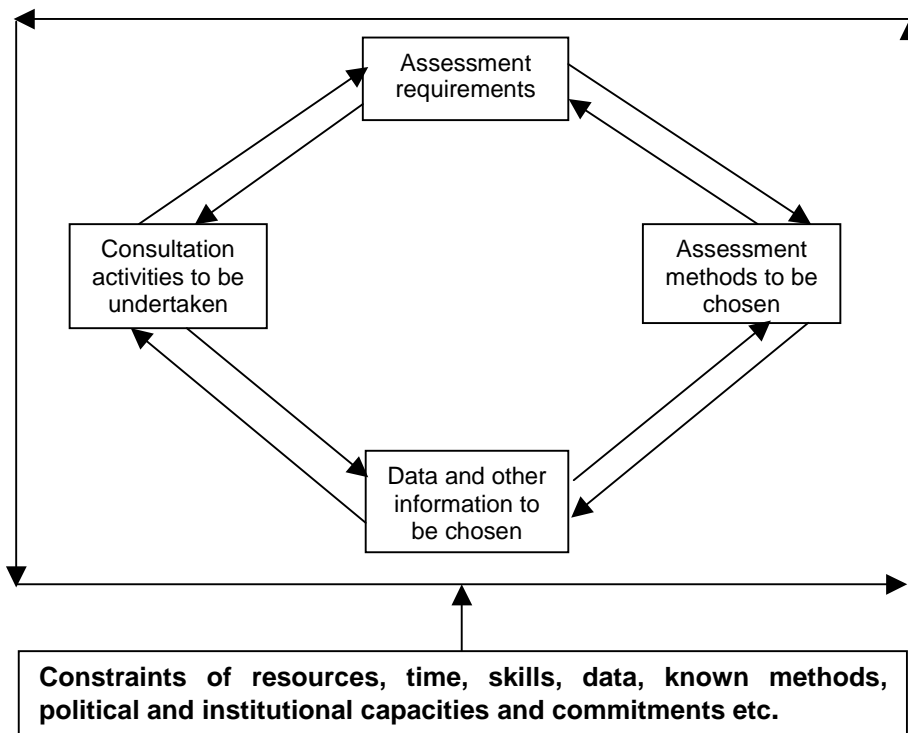
### SIA Method

- The assessment tasks to be undertaken
- The assessment methods required to undertake these tasks
- The data needed to apply the assessment methods and the sources from which the data may be obtained

### SIA Process

- Consultation activities to be undertaken.

**Figure 1 : The Assessment Methodology Cycle**



Each of these four components has to be consistent with others. For example, if there is sufficient data available, the choice of assessment methods may need to be modified and the assessment requirements may need to be more modestly defined. Also, the specification of all of the components within the assessment method cycle is constrained by the resources, skills, methods, data and institutional capacities and commitments which exist. The more restrictive these are, the more modest will be the practical assessment methodology which can be chosen. It follows, therefore, that the methodology approach – the preferred combination of requirements methods, data and consultations – is likely to be case-specific, and will need to be clarified in the specification of the approach to be used for each policy measure which is to be assessed.

The scheduling of the SIA process for each trade measure should ideally correlate with the scheduling of its negotiation. The SIA process should commence sufficiently early to enable the sustainability appraisal itself, and the consultations based upon it, to be completed in sufficient time for negotiators to take them fully into account before any agreement is reached and later approved.

Additionally, the scheduling of each SIA study should be correlated with arrangements for consultations relating to the SIA. The synchronisation of key stages in the SIA process (including accompanying arrangements for consultant with key stages in the negotiation process) is the ideal, but in practice will probably be difficult to realise fully.

The credibility of policy proposals with decision-makers and with stakeholders, is strengthened if the proposal is based on an 'objective' analysis of the potential benefits and costs that would ensue from its adoption. SIA as a method of analysis, provides a framework for the assessment of the potential impacts on sustainable development.

The Communication from the European Commission on Impact Assessment was published in June 2002. Here the Commission announces its intention to launch impact assessment as a tool to improve the quality and coherence of the policy development process. Gradually, from 2003, all major initiatives will be subjected to the new impact assessment method which will replace all existing impact assessment arrangements by building on them and implementing them into the new tool.

The impact assessment procedure will consist of a preliminary assessment giving an overview of the problem identified, possible options and sectors affected and an indication of whether an extended assessment is needed. An extended impact assessment will carry out a more in-depth analysis of potential economic, social and environmental impacts and will consult with interested parties and relevant experts according to the minimum standards for consultation following the guidelines given in the Communication on Consultation.

The role of SIA in providing a methodological framework for evidence-based ex-ante policy analysis has been highlighted in the post-Doha trade arena. If the Doha Work Programme is to be successful, the WTO-led process of discussion and negotiation will have to demonstrate that the lessons of Seattle have not just been incorporated into the WTO's rhetoric, but are being effectively translated into practice (George and Kirkpatrick, 2002).

The driving force behind the prominence given to the development dimension in the Doha Agenda was the developing countries' concern about the implementation of the results of the Uruguay Round. Implementation-related issues included: the limited gains to developing countries from the Uruguay Round; the backloading of liberalisation in textiles and clothing; the use of special safeguards; anti-dumping measures; more restrictive rules of origin to limit potential benefits from tariff liberalisation; and the limited progress in liberalising trade in agriculture. Developing countries also argued that a number of commitments to take special

account of their needs, for example, in the Anti-Dumping Agreement, had no legal force and were not applied in practice. A further concern related to the difficulties and costs to the developing countries in participating fully in the WTO, and in meeting their obligations under the WTO Agreements.

The Doha Ministerial Declaration recognised the implementation-related issues and concerns of developing countries: “We attach the utmost importance to the implementation-related issues and concerns raised by Members and are determined to find appropriate solutions to them..... We agree that negotiations on outstanding implementation issues shall be an integral part of the Work Programme....” (para. 12.).

One lesson to be learnt from the implementation issue is the need for negotiators to be better informed on the likely outcome of adopting a particular market access or rules measure. It will no longer be sufficient to rely on the general presumption that trade liberalisation will always produce a ‘win-win’ outcome for all parties. This highlights the need in any future negotiations to carry out detailed assessment of the costs, and benefits of market access and rules commitments. This assessment needs to be *ex ante*, undertaken prior to the negotiation stage, thereby serving to inform negotiators of the potential impact of any proposed measure for inclusion in a new round of trade negotiations. The assessment process should also include detailed monitoring and *ex post* evaluation of the implementation process, something which was not done by the WTO on a systematic and comprehensive basis, in respect of the Uruguay Round.

To be credible with policymakers, the assessment of trade measures needs to be well grounded in analysis and fact, demonstrating an understanding of the processes that are taking place (what we have referred to as causal chain analysis). A key issue is the terms in which the assessment will be conducted. Logically, this will be set by the objective, or goal, of the policy being considered. Traditionally, the goal of multilateral trade liberalisation has been defined in terms of economic welfare, which has set the yardstick or numeraire, for assessment of impact in economic terms. Economic analysis of trade measures is, therefore, the most obvious and easily provided form of policy analysis. One of the defining features, however, of the Doha Declaration is the commitment to the goal of sustainable development. Thus, while economic analysis is likely to provide the initial, or ‘first round’ assessment of impact, it will need to be complemented by assessment of environmental and social/poverty impacts.

There has been comparatively little detailed assessment of the social/poverty impact of trade policy measures. In part, this reflects the methodological difficulties in establishing the causal chain between a particular trade measure, and its impact on poverty at the disaggregated individual household or community level.

In summary, *ex ante* assessment of the Doha Agenda is a necessary part of the process of ensuring that the Agenda moves forward, from agreement in principle to implementation in practice. This assessment needs to incorporate the WTO’s commitment to the goal of sustainable development, by allowing for the potential economic, social and environmental impacts of any proposed trade measure.

In assembling the information and evidence base for the assessment of impacts, the IDPM-SIA methodology proposes the use of Causal Chain Analysis (CCA).

The fundamental purpose of causal chain analysis (CCA) is to identify the significant cause-effect links between a proposed change in an existing trade agreement and its eventual economic, environmental and social impacts (i.e. its impacts on sustainable development). CCA can be used at different levels of aggregation and detail, depending on the context and requirements of the situation. It can also be used at different stages in the SIA process. The

aim of CCA is to distinguish the *significant* cause-effect links in the chain. Significance criteria have to be formulated and then used to eliminate non-significant sections and terminate further analysis beyond these sections. The analysis is usually undertaken, in logical sequence by section, from 'cause' to 'effect'. However, a useful crosscheck can be undertaken by reversing the analysis (i.e. sequentially, by section, from 'effect' to 'cause') to ensure that the projected SD impacts are sufficiently 'explained' by the trade agreement change. Both the causal chain analysis itself, and the causal chain analysis findings, may be presented in the form of a causal chain diagram (sometimes called a cause-effect diagram). This shows each of the cause-effect sections which have been investigated (plus some sub-sections, in more detailed diagrams) in their logical order of causality, distinguishing those that are significant from those that are not.

The CCA will be supported by other, more specialised assessment tools for analysing, modelling, predicting cause-effect links in the chain.

A wide range of assessment methods exist which might be used in the elaboration of causal chains and in the empirical estimation of sustainability impacts. These include: modelling methods, data-based (statistical estimation) methods, descriptive (case study) methods, expert opinions and consultation methods.

Surveys of these different methods, examples of their application to trade policies and supporting literature reviews confirm that there is no single type of method which can currently satisfactorily meet all of the assessment requirements for SIAs of trade agreements. A package of methods is most likely to be required, where each package varies to some degree, according to the characteristics of the trade measure(s) being assessed and the context (e.g. regional and country characteristics) in which the assessment is being carried out. The strengths, limitations and possible applications of the main types of methods which might be included in an SIA methods package, as briefly reviewed:

- Modelling methods Models are simplified, structured representations of systems. Each has its own analytic structure and to this extent it shares the same strengths and weaknesses as the analytic methods described above. Some models are essentially theoretical. However, most of the trade-related models, are empirical in the sense that they use data (mainly in a quantitative form) and predict likely future impact outcomes, or explain previously observed impact outcomes, based on these. Whilst this might suggest that models are superior to analytic methods, this depends on the relevance and quality of both the modelling and the data which are used.

Examination of the relative merits of different types of models for use in SIA studies leads to the following conclusions:

- i. There is no single modelling system currently in being which satisfactorily assesses economic, social *and* environmental impacts likely to result from changes in specified international trade policies. Most existing models are still confined to elements of that system. They are mainly limited to the trade-economy sectors, but some extend to include parts of the environmental or social sectors.
- ii. Most models have been developed to assess impacts resulting from price changes due to trade liberalisation. Much less attention has been paid to how, and how far, the impacts of changes to trade rules and other kinds of trade measures may be satisfactorily assessed, using modelling methods.

iii. Because of the complexity of the systems involved, and known limitations in data availability, existing models (though appearing to the layman to be very complex) are greatly simplified to make them operational. Therefore, it is important to check the underlying logic of the model itself (i.e. its assumed cause-effect links) and the assumed values (coefficients) of those linkages.

- Data based (statistical estimation) methods These use time series and/or cross-sectional data to test for possible causal links within a trade-sustainable development framework. In particular, they test for a statistically significant relationship between specified parameters of a proposed trade measure and changes in the values of one or more of the selected SD indicators and/or (at a more detailed level) between cause and effect variables on particular sections of the causal chain.

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

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

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

Studies, based on the use of statistical estimation methods, should make a useful contribution SIA studies, though in many cases this will be supplementary to the contributions from other assessment methods. As with modelling studies, it is important that, in each case where these methods are used, the statistical estimates themselves and the quality of data employed are evaluated. It is assumed that most use will be made of *existing* statistical estimation studies. Some selective *new* applications of existing statistical estimation methods, which use *existing*, readily accessible data, may be undertaken. New data gathering for use with these methods is unlikely to be feasible, given time and other constraints.

Descriptive (case study) methods This group of methods is less well-defined than the other types of methods reviewed in this section and is probably the most heterogeneous. In most

cases, these methods are mainly empirical in nature and make use of both quantitative and qualitative data. They tend to focus upon a particular sector (e.g. mining, fishing); a national, regional or local community; and/or a particular socio-economic group (especially disadvantaged groups). In most cases they contain *ex post* assessments; relatively few systematically examine the likely future effects of proposed new agreements.

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

A difficulty with a number of descriptive studies is that their methodology is insufficiently developed or explained. Several studies make relatively simple 'before-and-after' impact comparisons. For the most part they do not sufficiently examine the causal chains which link the trade measure to its eventual economic, environmental and social outcomes. Also, they often ignore the counter-factual question and fail to take account of the additional impacts that would have occurred even if the new measure had not been introduced. Additionally, there are sometimes uncertainties (as in other studies) over precisely what data have been used, their levels of reliability and how they have been analysed and interpreted in reaching conclusions.

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

It is recommended that selective use be made of descriptive methods of impact assessment within SIA studies. They could be particularly helpful in understanding the variations in impacts at more disaggregated levels – sector, area and socio-economic group – and especially, where more qualitative assessments are appropriate. A focus on assessments within particular countries should assist in screening and scoping the existing descriptive studies to be submitted to more detailed analysis. They should be individually evaluated for their quality and relevance before final acceptance. Some assistance from local experts may be needed in the evaluation and interpretation of their findings. Due to resource and time limitations it is unlikely that a programme of new descriptive studies could be undertaken but more limited arrangements for some gap-filling may be feasible, with the aid of local experts.

Expert opinion From time to time, surveys are undertaken of the range of assessment methods in existence, and of the frequency with which each is used in practice. Among those methods which appear on an ever-lengthening list, it is the least formalised and sophisticated – expert opinion – which is often the most frequently used, though possibly the least publicised. This is likely to be important in SIA studies for the following reasons:

- There is no standard SIA methodology which is applicable in all circumstances. It has to be 'tailor-made' for, and 'case specific' to, each assessment situation. Expert opinion will need to play a significant role in the development of the 'case specific'

methodology, through the screening and scoping updates and consultation based on these.

- There is no comprehensive SIA methodology in being which is yet fully operational. It has to be welded together from a number of different parts – which are trade, economic, environmental and society-related. Expert opinion, with other forms of supporting assistance, will need to play a central role in making this fusion work.
- There are many gaps in method, knowledge and data within the components which will form the comprehensive SIA methodology. This is not surprising in a new and innovative field of assessment. Only to a limited degree, can these gaps be filled through additional research, data gathering and new empirical studies over the lifetime of the Phase Three studies. In most cases, the ‘second-best’ solution will lie in using expert opinion, to make most effective use of the methods, knowledge and data already available.

Where expert opinions are used, it is important that the evidence and analysis upon which they are based are made explicit. In other words, they should be substantiated and justified.

Different types of experts should be employed on SIA studies and play differing roles within them. They include:

- Core team experts who will be involved in overseeing the development and successful application of all of the methodologies to be used in Phase Three studies. Between them, they should possess sufficient skills and knowledge relating to the main methods to be used and have the capacity to integrate them successfully within a single unified methodology.
- Sector experts who should possess skills and knowledge appropriate to the particular sectoral assessments in which they will be involved.
- Region/country experts who possess assessment skills and knowledge appropriate to the regional or country context in which part of an SIA study is to be conducted.
- Other external experts who belong to the international network of SIA experts who may be consulted about the specifics of a particular case, or methodological and data issues.
- Other consultees (e.g. stakeholder organisations, NGOs) who may be asked for their opinions on matters contained in screening and scoping updates and later full assessments or may be asked for opinions and advice on specific issues arising during the assessment process.

Data constraints, in terms of quality and availability, will partly determine the practical assessment methodology which can be chosen, and the level of detail at which it can be applied. The data constraints are likely to be case-specific, and are likely to arise in a number of different forms. They include:

- the definition used for the collection and measurement of data may diverge from the ideal definition required for sustainability assessment purposes. For example, the ‘ideal’ measurement of real income includes the social and environment costs and benefits of

economic activity, whereas the actual measure of real income (at the national level) does not allow for these externalities.

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

The data constraints mean that the available data will typically be an *approximation* of the ideal data requirements for sustainability impact assessment. In judging the suitability of data for use in sustainability impact assessment, it is recommended that the data requirements be defined as precisely as possible. The available empirical data that approximates this definition should then be identified. Finally, the degree of discrepancy between the definition and the empirical data should be assessed and a judgement made on whether the data is to be used in the assessment. Where the data is used, any significant discrepancies or limitations should be recorded at the screening and scoping stage, and acknowledged in the presentation and interpretation of the assessment results.

It is informative to compare the underlying philosophy of, and best practice in, SIA with the aspirations and visionary aims expressed by the European Commission in its White Paper on European Governance:

“the linear model of dispensing policies from above must be replaced by a virtuous circle, based on feedback, networks and involvement from policy creation to implementation at all levels” (Commission of the European Communities, 2001b: 11).

The European Commission identified the reform of European governance as one of its four strategic objectives in early 2000. In its White Paper on European Governance it noted that “many people are losing confidence in a poorly understood and complex system to deliver policies that they want” (Commission of the European Communities, 2001b: 3). The White Paper proposes “opening up the policy-making process to get more people and organisations involved in shaping and delivering EU policy” (Commission of the European Communities, 2001b: 3). Openness, participation, accountability, effectiveness and coherence are identified as the five principles underpinning good governance.

The White Paper also discusses how the EU should apply the principles of good governance to its global responsibility, including aiming to improve the effectiveness and legitimacy of global rule-making and helping to complement international action with new tools.

One outcome of the White Paper has been the publication of a proposal for general principles and minimum standards for consultation of interested parties by the Commission (Commission of the European Communities, 2002b). Guidelines on the collection and use of expert advice are also due to be published soon. Another significant outcome was the Mandelkern Group's Report on Better Regulation published in November 2001. This emphasised the need to address the whole life cycle of policy (inception, design, legislation, implementation and review) and its recommendations included embedding a new, comprehensive and suitably resourced impact assessment system as an integral part of the policy making process. The report also stressed the importance of consultation and identified one of the potential benefits of impact assessment as the framework for such stakeholder involvement which it can provide.

### **Sustainable development**

Two months prior to publishing its White Paper on European Governance the Commission published its proposal for "A sustainable Europe for a better world: a European Union strategy for sustainable development". The Commission identifies the Brundtland Commission's definition of sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Commission of the European Communities, 2001a: 2) to be a global objective and on the same page states that, in the long term "economic growth, social cohesion and environmental protection must go hand in hand".

The Commission considers that its sustainable development strategy should be "a catalyst for policymakers and public opinion in the coming years and become a driving force for institutional reform and for changes in corporate and consumer behaviour" (Commission of the European Communities, 2001a: 3). A new approach to policymaking is identified as requiring urgent action. Although many EU policies address the economic, social and environmental dimensions of sustainability "these have developed without enough coordination. *Too often, action to achieve objectives in one policy area hinders progress in another*" (Commission of the European Communities 2001a: 5) (emphasis in original).

Therefore, assessments of policy proposals must include estimates of their economic, environmental and social impacts inside and outside the EU. "It is particularly important to identify clearly the groups who bear the burden of change, so that policymakers can judge the need for measures to help these groups to adapt" (Commission of the European Communities 2001a: 6). And, recognising that EU policies have consequences far beyond its geographical borders, "policies must actively support efforts by other countries – particularly those in the developing world – to achieve development that is more sustainable" (Commission of the European Communities 2001a: 9).

### **Impact assessment**

The Communication from the Commission on Impact Assessment was published in June 2002. Here the Commission announces its intention to launch impact assessment as a tool to improve the quality and coherence of the policy development process. Gradually, from 2003, all major initiatives will be subjected to the new impact assessment method which will replace all existing impact assessment arrangements. Technical guidelines were due to be issued in September 2002.

The impact assessment procedure will consist of a preliminary assessment giving an overview of the problem identified, possible options and sectors affected and an indication of whether an extended assessment is needed. An extended impact assessment will carry out

a more in-depth analysis of the potential economic, social and environmental impacts and will consult with interested parties and relevant experts according to the minimum standards for consultation following the guidelines given in the Communication on Consultation. Annexes to the Communication on Impact Assessment cover the format for the preliminary assessment statement, components of impact assessment, and indicative reporting format for the extended impact assessment.

When discussing how to gather the information needed to answer key impact assessment questions the Communication says “Where it is not possible to assemble all relevant data within a reasonable time frame, qualitative or partial data will be used” (Commission of the European Communities, 2002a: 7). This could be interpreted as suggesting that qualitative data will be used only when insufficient quantitative data is available. This would be regarded by many practitioners of impact assessment as a mistake. The consensus among researchers has been for some time now that a judicious mix of quantitative and qualitative methods is usually required. Indeed the seminar on SIA held in Brussels in 2002 which brought together some 55 experts from Member States, the Commission, research institutes and stakeholder groups recommended that SIA should “make use of quantitative analysis where possible but will need to be supplemented by good qualitative analysis” (Institute for European Environmental Policy, 2002: 8). Both quantitative and qualitative methods have their strengths and weaknesses and can be creatively used to complement each other.

Qualitative research methods e.g. semi-structured interviews, focus groups, participatory appraisal methods, are essential for developing an accurate as possible picture of competing hypothetical realities – the core function of SIA. To understand complex realities where people’s values, perceptions and judgements will affect their response to policy and therefore affect policy impact requires going beyond a purely quantitative picture of reality.

For example, it is not difficult to construct plausible and mutually contradictory causal chain analyses of the likely impacts of policy change. It could be argued that increasing the opportunities of women in country X to earn income will:

- Impact positively on household relations through a more equitable distribution of power and decision-making within the household because of women’s improved negotiating and fallback position and also because of the increased respect of their men who will better appreciate the value of their wives’ actual and potential contribution
- Lead to increased incidence of domestic violence, separation and divorce as women who try to exercise more choice within the household on the basis of their increased financial independence come up against the powerful economic, social and cultural imperatives to maintain the status quo which are felt by the men of country X
- Have no impact on household relations as the extra income will be painlessly absorbed into the mutually-beneficial and non-contentious household budget

To investigate hypothetical impacts of proposed policy change and establish causal chains which turn out to have some credibility in terms of accurate prediction i.e. are supported by impact analysis at the ex-post stage, requires methods which go beyond the strictly quantitative. In order to answer questions as to *what* impacts will occur SIA has to find some answers to *how* and *why* they occur. Indeed, one of the useful functions of qualitative research is that it frequently exposes interesting questions which require a quantitative approach. In this way the two methods complement and reinforce each other. Each would be weaker without the other. It is to be hoped that this will be acknowledged in the methodological guidelines that are about to be published.

## Consultation

The Communication on Impact Assessment states “Impact assessment is an aid to decision-making, not a substitute for political judgement. Indeed political judgement involves complex considerations that go far beyond the anticipated impacts of a proposal” (Commission of the European Communities, 2002a: 3). Two pages later it states that “The aim of the impact assessment process is that the Commission *bases its decisions* on sound analysis of the potential impact on society” (emphasis added). This raises the important issue of the relationship between participation and decision-making. As Hemmati states, when discussing the meaning of the term *consultation*, “The link of this input into decision-making is loose or remains unclear in many cases” (Hemmati, 2002: 17).

Participation imposes costs, and participants need to have confidence that the time, effort and expense involved are worthwhile and that the opportunity costs are not excessive. It is not disputed that it is the politicians who will make the final decision but there is a difference between contributing to an impact assessment process upon whose outcome decisions will be *based* and contributing to a process whose outcome may well be considered inconsequential in comparison to some undefined and far reaching *complex considerations*.

Potential participants have a fundamental choice as to whether or not they participate in any given consultative process. Indeed one of the current problems in governance, particularly for international organisations, is the large number of NGOs and activists who have declined to take part in consultation and instead chosen to operate from outside the conference room. “Policy makers sometimes construct these policy spaces to educate citizens about the choices they have made, or to appear consultative and thus diffuse public criticism. But they may have no intention of changing their agenda” (IIED, 2002: 34).

The Commission’s *Consultation document: towards a reinforced culture of consultation and dialogue* states that “It must be clear... what has influenced decisions in the formulation of policy” (Commission of the European Communities, 2002b: 11). The Commission also states that it must always “ensure in its consultation procedures that all relevant interests in society have an opportunity to express their views” (Commission of the European Communities, 2002b: 5).

The extent to which the Commission’s proposed consultation procedures focus on individual one-to-one inputs from stakeholders is striking. There is little recognition of the desirability of bringing stakeholders together so that they might learn from each others’ perspectives. Although there is a reference to “formal consultation fora” and “other structured consultation groupings” and to the database containing details of these, there is no discussion or guidance as to how these groups might be conducted.

In declaring its own commitment to participation and openness the Commission proposes a similar commitment from the interested parties it intends to consult with. It states “It must be apparent: what interests they represent, how inclusive that representation is and how accurately they reflect those interests.” (Commission of the European Communities, 2002: 1). In many cases this may indeed be appropriate, particularly for organisations which use such arguments to press their own particular interests. However, organisations which express a concern which does not have widespread popular support should not be disadvantaged by this. It is also worthy of note that the Commission document does not mention any capacity-building initiatives or indeed recognise capacity-building as an issue.

The set of eligibility criteria produced by the Economic and Social Committee reflect a very restrictive definition of eligibility, including that the organisation must exist permanently at European level, have member organisations in most of the other European states and “have authority to represent and act at European level” (Commission of the European

Communities, 2002b: 15). This would exclude many organisations and is not easily reconciled with the Commission's stated recognition of "the need to involve non-organised interests, if necessary" (Commission of the European Communities, 2002b: 5).

### **Impact assessment and policy formulation**

The Communication on Impact Assessment identifies those policy proposals which will qualify for impact assessment. It also states "However, certain types of proposal will normally be exempt from the impact assessment procedure. This would include proposals like Green Papers where the policy formulation is still in process" (Commission of the European Communities, 2002a: 5). What is of concern here is the implication that it is only those proposals where policy formulation is *not* still in progress that are suitable for impact assessment. If impact assessments cannot affect the formulation of policy it is difficult to see how to justify the considerable effort of carrying them out. Impact assessments, by their nature, require an iterative approach. As policy or policies are proposed, investigations produce information on likely impacts, and raise further policy options, decisions are made as to which to pursue and then the process repeats itself. This process of feeding results back in to the process and the subsequent modifying of policy proposals is sometimes described as the mitigation and enhancement process. The M&E process should identify in "flanking measures" which, if adopted, will ameliorate or enhance impacts.

When considering the policy formulation process it is important to recognise that the policy on the ground can often be very different from policy as written and legalised. For example "legislative and policy changes in women's status are often several stages removed from the lived realities of women in Africa" (IIED, 2002: 49). The establishing of monitoring and evaluation systems to record not only the impacts which are occurring but also how the policy is being operationalised is a crucial part of the impact assessment process and is an area in which involving stakeholders can be extremely useful.

Finally the limitations inherent in any research process need to be acknowledged in order that they may be minimised. It is naïve to assume that research, whether for impact assessment or any other purpose, is a purely technical and rational process and that it does not involve decision-making itself. Reflecting on his experience in analysing the data collected during the World Bank's Voices of Poverty project Robert Chambers notes that he himself was "a participant in the exercise of power in the construction and use of knowledge" (Brock and McGee, 2002: 136). He notes that "as in all research, planning the methodology entailed the exercise of power to set boundaries on what would be found" (Brock and McGee, 2002: 141). The recognition that "power forms and frames knowledge and... interpersonal power distorts what is learned and expressed" (Brock and McGee, 2002: 159) places responsibilities on researchers to practice honest reflexivity and maintain their awareness of how this process is affecting their actions.

These two examples of apparently inconsistent statements, on decision-making and the role of consultation, reflect a lingering ambiguity in the Commission's approach to public participation in policymaking. Through its support and implementation of SIA the Commission has indicated its wish to contribute to better governance by widening access to, and participation in, the decision-making process. But to what extent does the Commission believe that involving a wide range of stakeholders in a consultation process produces relevant information that will enable better decision-making?

## Conclusions

The paper has examined the contribution which SIA may make to the process of European Governance reform. In doing so, it has identified a number of areas in the Commission's documentation where there is ambiguity or lack of clarity:

- the White Paper on Governance speaks of creating “a virtuous circle, based on feedback, networks and involvement from policy creation to implementation at all levels”, whereas the Consultation on Consultation talks of consulting in an “adequate way”.
- the appropriate and complementary use of mixed methods (quantitative and qualitative) in impact assessments so as to ensure both are used to their best advantage
- the relationship between consultation and decision-making; specifically the role of factors additional to impact assessment which will influence decision-making
- recognise that all research involves value judgements, decisions and the exercise of power and therefore not over state the rationality of even purely quantitative methods
- the value of fora in which stakeholders can engage not only with the Commission but with each other and the need for guidelines for the conduct of such fora

Further elaboration and clarification of these issues will contribute significantly to establishing the credibility of SIA as a tool for decision-making, with both negotiators and civil society stakeholders.

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