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# THE PRIVATE SECTOR DEVELOPMENT IMPACT ASSESSMENT INITIATIVE

## INTRODUCTION

The private sector is the engine that drives economic growth. Growing recognition of the importance of private sector development (PSD) has led donors to craft a new generation of programs that emphasize *sustainable* and *pro-poor* economic growth by working through markets and private sector agents and by reducing and eventually eliminating subsidies provided to participating businesses.<sup>i</sup> Although USAID and other donors have already invested hundreds of millions of dollars in PSD programs and will make still larger investments in the future, they lack solid information about their effectiveness. This is due to the lack of impact assessments.

Director of U.S. Foreign Assistance and USAID Administrator Randall Tobias recently referred to “new responsibilities to focus on performance, results [and] accountability...” Impact assessment can help USAID (and other donors) fulfill these responsibilities by generating information critical in helping USAID to:

- design more effective programs,
- make modifications to ongoing programs,
- produce statistically credible demonstrations of results,
- avoid mistakes of the past, and
- improve the allocation effectiveness of development funding.

## WHAT IS IMPACT ASSESSMENT?

The purpose of impact assessment is to identify program outcomes, determine whether they can be *attributed* to (or *caused by*) the program, and provide an in-depth understanding of the various causal relationships and the mechanisms through which they operate. Determining *attribution* in turn requires defining a *counterfactual*—a picture of what would have happened if the program had not been implemented. The plausibility of an impact assessment is determined by the success achieved in establishing a counterfactual. (In contrast to impact assessment, *performance monitoring* can determine whether a program has achieved its objectives, but it cannot determine if, why, or how the program was the cause.) High-quality impact assessments typically utilize a mixed-methodology approach including a representative, time-series survey and qualitative assessments (e.g., in-depth individual interviews, focus group discussions, case studies) of program participants and non-participants.

## THE VALUE OF STRATEGIC IMPACT ASSESSMENT

Impact assessment can be carried out at various levels of sophistication with varying price tags. A good impact assessment using a mixed-methodology approach can be expensive, but costs can be controlled by varying the scope of questions addressed and ensuring the methodology is appropriate to the situation. Where cost is a factor, impact assessment should be used strategically to answer

important programming and policy-related questions or in conjunction with innovative, expensive, controversial, or other programs with significant potential for generalized learning.

Scaled down and less expensive impact assessments may be appropriate to address narrower questions, such as the impact of product innovations or changes in program policies or procedures. In any case, impact assessments typically account for only a small percentage of total program funding. The benefits of impact assessment can be large relative to its cost to the extent it informs policymaking; improves program design, policies, and outcomes; and improves program funding decisions.

## **THE PRIVATE SECTOR DEVELOPMENT IMPACT ASSESSMENT INITIATIVE**

The PSD Impact Assessment Initiative is funded by USAID under the Accelerated Microenterprise Advancement Project (AMAP). The objective of the Initiative is to create learning about and improve the effectiveness of economic growth programs through impact assessments, and to identify specific impacts that PSD interventions have on the private sector and pro-poor growth.

The PSD Impact Assessment Initiative is accomplishing its objectives through a four-pronged strategy that includes: 1) building a conceptual model that improves understanding of the impacts of PSD programs, 2) developing and testing rigorous methodologies for measuring the impact of PSD programs, 3) producing insights about the most effective

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types of PSD interventions and how they work through implementation of high quality impact assessments and desk research, and 4) providing USAID Bureaus and Missions with realistic options for assessing the impact of PSD programs and supplying methodological and other guidance on how to conduct credible impact assessments.

The PSD Impact Assessment team seeks opportunities to engage with the USAID community and to serve as a base of information and capacity development in impact assessment for economic growth programs via its publications, discussions with USAID and Mission staff, advice, workshops, and training.

The PSD Impact Assessment team is currently undertaking high-quality impact assessments of USAID private sector development programs in Kenya, Zambia, India, and Brazil, and is developing an Impact Assessment Primer Series to serve as a guide for USAID and Mission staff in planning and implementing impact assessments.

Visit [www.microlinks.org/PSDimpact](http://www.microlinks.org/PSDimpact) for additional resources and documents.

**Please direct inquiries about Initiative activities, questions about impact assessment, or requests for capacity development to:**

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<sup>1</sup> New generation PSD programs include one or more of multiple interventions aimed at: improving the business climate; increasing market demand; upgrading firm performance; strengthening the competitiveness of selected value chains and clusters; creating employment; and boosting supporting markets for finance, inputs, and business services. The ultimate objective of new generation PSD programs is to accelerate the rate of pro-poor economic growth.