

Chapter 3

Assessing Expected Impacts

by
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Assessing the expected impacts of proposed strategies is a difficult task because it involves projection into the future. This chapter offers guidance, drawing attention to the potential approaches and the advantages and difficulties involved. An initial choice needs to be made about whether to adopt simple or more sophisticated approaches. The sophistication of the assessment should increase with the scale and complexity of the strategy; the financial, time, data and human resources available; the degree of political demand, and; with the level of understanding of the user.

There are two main approaches available for **measuring** the expected effects it is possible to identify two main approaches:

- A “top-down” approach deals with effects at the aggregate market level, like industrial sectors, and focuses on impact in relation to global objectives.
- A “bottom-up” approach deals with effects at the individual agent level, and focuses on the outcome in relation to specific objectives.

Choices must also be made concerning assessment **criteria** and **indicators**. The assessment criteria are used for making the judgement, like efficiency, effectiveness. The indicators need to be chosen for the intermediate outcomes and impacts, which must be made in relation to the relevant objectives.

Ultimately, the assessment will collect data and other information on the expected effects, for the purpose of informing decision makers on the appropriate courses of action, both initially and ongoing. In some cases it is best just to set benchmarks by which to judge the future performance of a strategy, but in other cases sophisticated modelling may be undertaken.

Introduction

Assessment of expected impacts is a tool for improving the quality of economic development strategies. It provides information to decision makers with which to form judgements on the value of a local development strategy and to make choices between competing strategies. It gathers data and undertakes analyses for three related purposes:

- To help define the objectives and design the nature of an intervention.
- To ensure that the objectives can be met and that it is effective.
- To help set targets against which the intervention can later be evaluated.

The crucial data and information to be collected includes not only the costs of the strategy itself, but the benefits and costs that accrue to the local economy. These may occur years into the future, may impact either directly or indirectly, and may be intentional or even unintentional. Consistent with the purposes of strategic assessment, once collected, the uses to which the data and information on the expected impacts may be put are as follows:

- To choose between alternative policy options.
- To decide upon the right scale of expenditure.
- To set targets against which the policy can be monitored and evaluated.

These uses could relate to the local development strategy as a whole, or constituent elements making up such a strategy or programme, *i.e.* individual policy instruments. The options for a strategy were considered in Chapter 2, while the issue of monitoring is taken up in Chapter 6. The purpose of this chapter is to consider the measurement of the expected effects, in order to fulfil any or all of the above three purposes. Of course, the effects to be measured vary with the nature of the development strategy, and it is not possible to offer a definitive blueprint for all assessments. Rather this chapter offers a framework and guidance on how to go about measuring the effects of a local development strategy. It draws attention to the main features, and to the difficulties involved.

The different characteristics of a local development strategy were considered in Chapter 2, *e.g.* nature, purpose, financial and geographical scale. These determine the nature of the effects, while the assessment will also vary according to each of the following, which lead to a number of choices. The nature of these choices is considered in this chapter.

- The number and complementary nature of the **instruments** involved, *i.e.* single or multiple, and directed towards the same or different specific objectives.
- The **objective** or **targets** against which the assessment is being made, *e.g.* broad aims (raise an area’s gross domestic product [GDP]) or specific objectives (*e.g.* increase the number of start-up firms).
- The **assessment criteria** being used to make the judgement to make the prior assessment, *e.g.* efficiency, effectiveness or cost-effectiveness.
- The **timeframe** of the strategy, *e.g.* a seven-year, five-year or even a single year programme.
- The economic and institutional **context** of the development strategy, *i.e.* stable or relatively unstable macro-economic or political conditions.
- The **resources** available for the assessment, including funding, time, data and the human resources in terms of their availability and skills.
- The **capacity** and understanding of the user of the assessment.

A framework for assessment

To fulfil the purposes of strategic assessment, the gathering of data and information on the expected effects should be carried out early on in the policy process, and prior to implementation, when the options are still open. For this reason it is known as prior assessment, *ex ante* evaluation or appraisal. It confronts the question of “what will happen?” This is different to the usual situation in *ex post* evaluation where this is known, and the issue of interest is “what would have happened?”

In order to carry out the prior assessment it is vital to have a framework. This must be constructed in the light of the objectives of the development strategy (Chapter 1), and it must make use of a “problem analysis” (European Commission, 2001). The “problem analysis” consists of an outline of the problem to be addressed by the strategy, the agents and factors involved and how these relate. This framework is primarily used to work out the nature of the development strategy, but it is useful to the assessment in identifying how the strategy is likely to have its impact. The features of a “problem analysis” are set out as follows (European Commission, 2001):

1. Define key aspects of the situation to be addressed by the programme.
2. Identify factors likely to influence the key problem.
3. Identify the main groups of actors that will be influenced.

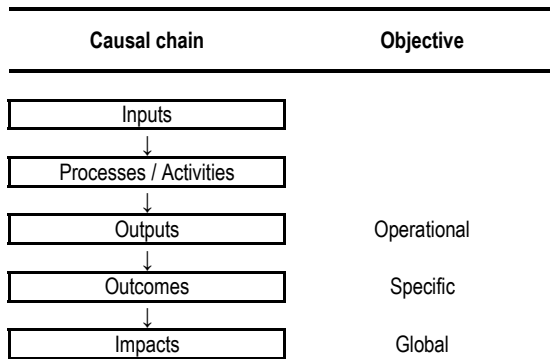
4. Analyse the cause-and-effect relations between the factors identified and the interests and motivations of the actors.
5. Construct a visual representation of these relationships.

The “problem analysis” indicates the effects that are expected, and it draws attention to the causal relations that exist between the strategy and the effects. These relations can be explored in greater detail by using what is known as a “logic model”. This shows the chain of expected cause and effect running from the strategy to the final (expected) impact of the development strategy.

The “logic model”

The “logic model” is presented in its barest form in Figure 3.1. To keep matters simple this is for a development strategy that involves a single policy instrument, *i.e.* a job creation scheme. Of course, the actual situation will inevitably be more complicated than this, but as an abstraction from reality, Figure 3.1 is useful for drawing out the main features.

Figure 3.1. The “logic model”



The precise use of terminology is important in evaluation, as misuse causes confusion. Figure 3.1 shows the chain of cause and effect running from the **input** to **output** to **outcome** and finally to the **impact**. The first two of these can be defined as follows:

- **Input:** The input is the intervention. It is usually measured in cost terms (*e.g.* the value of grants or cost of works to land), but it could be measured in other units, such as the hours of advisory support to develop entrepreneurship or hours of training to enhance worker or management skills.

- **Output:** The intervention generates outputs via a set of activities or processes. For a job creation scheme it is the increased number of jobs in supported firms. However, it could be the number of hectares that are developed or the number of individuals that are trained on a programme.

In general, the basic problem in evaluation (whether *ex ante* or *ex post*) is that not all of the **outputs** will be attributable to the intervention. For example, some (or perhaps even all) of the firms creating jobs may have created the jobs anyway, irrespective of the scheme. Further, there may be indirect effects that occur in other firms. For example, supported firms may put other non-assisted firms in the local area out of business. In this way it is also important to distinguish between the **outcomes** and **impacts**:

- **Outcome:** The outcome (or what is also sometimes known as the result) is the short-term effect experienced by the agents or markets directly affected by the strategy, *i.e.* over the first year or so. In the case of the job creation scheme it is the jobs in supported firms that would not have been created without the scheme.
- **Impact:** The impact is the longer-run economy-wide effect experienced by all agents or markets within the local area, *e.g.* over a period of two to five years. The impact includes the effects of the job creation scheme on other firms in the local area, including feedback effects on those firms that were initially supported by the scheme, so that matters can be quite complex.

This taxonomy points to some fundamental choices to be made in the assessment. One of these is whether to measure the expected effects in terms of the outcomes or in terms of the impacts.

The outcomes and impacts

Having outlined the chains of expected cause and effect running from the inputs to the impacts, it is necessary to decide on what data should be collected, and then how these data should then be analysed and interpreted. This involves collecting data on **indicators**. These indicators are considered in greater detail below and in Chapter 5. For now the level at which the indicators are chosen is considered, and hence at what level the data and information need to be collected. The “logic model” suggests the indicators can be defined at different levels, either in terms of outcomes or impacts, or indeed they may even be defined at the level of the inputs or outputs.

Consider the example of the job creation scheme. Table 3.1 illustrates different kinds of indicators. The **input indicators** capture the support given to firms, *e.g.* the grants taken up and administration costs, and the **output indicators** measure the results of this support, such as the number of firms

or jobs supported. However, these are the gross jobs, and not all of these will depend on the support, so that the **outcome indicators** measure the number of net jobs that are attributable to the support. The **impact indicators** are defined in terms of the overall employment effect of the scheme on the local economy.

Table 3.1. **Indicators for a job creation scheme at different levels**

Level	Description	Possible indicators
Input	Grants and administration	Annual commitment of funds Annual payment of funds Administration costs
Output	Projects	Number of firms supported Gross jobs supported Firm compliance costs
Outcome	Jobs created	Net jobs created by firm Improved operating efficiency
Impact	Increase in employment	Net jobs created by economy Unintended effects elsewhere

In distinguishing between the output and the outcome the concept of “additionality” is important. This is the extent to which an intervention alters the behaviour of agents, such as in the timing, scale or nature of their activities. It could be that in the absence of government support all the jobs would otherwise be created by firms, so that the scheme has no effect, so it is said to be “non-additional”. In this case, the outcome is zero, even though there are non-zero outputs. Where there is a zero outcome then the expenditure is said to represent “deadweight spending”, and the jobs are referred to as “deadweight jobs” (see HM Treasury, 2002).

The **outcome** captures the short-run effect directly attributable to the intervention, *i.e.* the net jobs in firms. However, there may be longer-run effects in the supported firms induced by the intervention that require other outcome indicators to be defined. In Table 3.1 this is the improved operating efficiency of supported firms, which may cause them to generate even more jobs in the long run, but which are not otherwise captured.

The **impact** is the economy-wide effect occurring in the long run. In terms of Table 3.1 this is the increase in employment occurring throughout the local economy as a result of the scheme. It can be measured at the aggregate level, although this may be difficult if the scheme is relatively small, so that its effect is difficult to detect, or where aggregate data are not available or collected at the relevant local level.

If the indicators are defined in terms of outcomes and data collected for these, then it is important to realise that the measured effect of the development policy will in general not be the same as when the indicators are defined in terms of the impacts. This is because there are various **indirect effects**, and it will be necessary to collect data on these. Further, even if data are collected for the impact, it is useful to have knowledge of the indirect effects in order to understand how the policy works and to interpret the results. The nature of the indirect effects should be articulated in a “theory of action” considered below.

The indirect effects

There are essentially five kinds of indirect effects:

- **Displacement:** effects occurring elsewhere in the direct market.
- **Linkage:** effects in markets related to the direct market.
- **Feedback:** longer-run effects in the direct market arising from linkages.
- **Multiplier:** effects in subsequent periods arising from changes in factor incomes.
- **Externalities:** effects on other agents not transmitted via prices.

Displacement effects – This refers to the beneficial activities of other agents that no longer go ahead as a result of an intervention. These relate to the direct effect, *i.e.* the market in which the intervention occurs. In the case of Table 3.1, these are the jobs in non-assisted competitor firms that are lost because of the support. For example, the support could increase the demand for labour and cause a general wage effect in the local economy that displaces other workers. In the case of regional policy in Scotland, for example, it is estimated that the displacement jobs are substantial over the long run, amounting to one-quarter of the gross jobs created (see Gillespie *et al.*, 2001, on this issue).

Linkage effects – These are the economic linkages that exist between the agents affected by the intervention and the other agents in the local economy that may be affected over the longer run. These may take many forms, and it is a highly complex task to trace all these through in the economy. As a rule, it is useful to focus on the most important of these, by considering those agents or markets that are most closely related to the agents or markets in which the intervention takes place.

A distinction might be made between “vertical” effects in supplier firms and “horizontal” effects that occur via consumption. In the case of the former, if the strategy increases the output of supported firms then it will

increase the sales of supplier firms (although displace the output of firms selling the same product or service). In the case of the latter, the intervention may increase the demand for “complementary” goods, but reduce it for “substitute” goods. For example, tourism support may increase the demand for rail or bus travel (complementary goods) but reduce it for other leisure activities (substitutes).

Feedback effects – These arise because the effects occurring in other markets may have knock-on effects on the agents directly affected by the intervention. It means the long-run direct effect could be different from the short-run direct effect once these feedback effects have occurred, but possibly greater or smaller. For example, if non-supported firms go out of business then this may have a positive feedback effect on supported firms by increasing the output price. Conversely, in the tourism example, the increase in demand for rail or bus travel increases the fares for these services, choking off demand for tourism.

Multiplier effects – These result from the increase in the incomes of the inputs engaged in producing the output generated by an intervention, such as the employees, managers, shareholders and owners of capital. Over time, and through successive rounds of what is known as the **multiplier process**, the income generates economic activity when it is spent in the local economy, *e.g.* individuals filling the new jobs spend their income on locally produced goods creating jobs in other activities. This leads to further rounds of the multiplier process as these recipients spend their income, and so on.

The multiplier is relevant for assessing the impact of large investments or closures (*e.g.* a car plant or shipyard) on a local economy, where in addition to the effects on supplier firms, there is a widespread boost or depressing effect on the economy from the gain or the loss of employment and income. The multiplier effects for many different kinds of intervention have been studied extensively (see Armstrong and Taylor, 2000).

The analysis of the multiplier process amounts to determining the **local multiplier**, from which the overall long-run multiplier effect is calculated. It places the greatest importance on the first round of the multiplier process (*i.e.* where the income directly generated by the intervention is spent). The key issue is the extent to which the extra income is either returned to the local economy or whether it leaks out. The **leakages** are likely to be greater, and hence the impact on the local area smaller, the:

- Smaller is the physical size of the local area and/or the size of its economy.
- More industrially specialised the area, so that the more it is reliant on goods and services produced elsewhere.

- More any increased taxation is used to fund national government services rather than returned to the local area.
- More in-commuting there is in the local labour market, so the benefits flow out.

Externalities – In addition to the above effects, there are other external effects. These are not transmitted through prices, but via by other processes, *e.g.* imitation, learning or transfer, and are known as externalities. They are particularly important for certain kinds of intervention. For example, a reason for attracting foreign investment is that it has beneficial effects on domestic firms from **spillovers**. These arise from the supposed better product and process technologies of foreign firms and their better organisational and managerial practices, etc., which may improve the competitiveness of local firms.

Choices regarding assessment

The nature, purpose and scale of a development strategy will determine the effects, and in addition, the introduction to this chapter noted that other factors affect the nature of assessment. This means that there are choices to be made, and important to these are the objectives against which the strategy is assessed and the criteria used to form the judgement on whether a strategy is worthwhile or not, and at what scale.

The objectives

The assessment should be made relative to the strategy objectives. These can be defined at different levels, corresponding to the impacts, outcomes and outputs shown in Figure 3.1. The European Commission (2000) offers a logical relationship between the objectives and the impacts, outcomes and outputs (see Figure 3.1):

- **Global objectives:** these give the overall strategy for the intervention.
- **Specific objectives:** these are the priority areas of the intervention.
- **Operational objectives:** the objectives of individual measures and instruments.

In the case of the example in Figure 3.1 the **global** objective is to increase the employment of an area. To achieve this it works through priority areas, which for this example is the **specific** objective of job creation. It is implemented through the **operational** objective, which are the grants to firms. There may be other priority areas and operational objectives in support of the same global objective. For example, a training scheme that

improves labour market matching (operational and specific objectives respectively) could support the same global objective of increased employment.

The assessment criteria

The assessment criteria are the issues that the assessment seeks to address, and relate to its purpose. For a prior assessment the questions are **predictive** in nature – what will happen? – and **critical** – will the intervention effect the required change? According to Tavistock Institute with GHK and IRS (2003), the principal assessment criteria are:

- **Relevance** – To what extent are the objectives of the intervention relevant to the needs and priorities of the implementor? It relates to appraisal, and the choice of the best development strategy in order to achieve the objectives of policy.
- **Efficiency** – How will the inputs be turned into outputs or outcomes (see Figure 3.1), and can better results be achieved using fewer inputs? This involves comparing the effects achieved with the resources used.
- **Effectiveness** – How far will the strategy contribute to achieving the specific or global objectives? It considers whether the outcomes or impacts will meet the objectives, and issues such as what are the successes and difficulties.
- **Utility** – Will the programme have the desired impact on the target groups in relation to their needs? This assesses the effects in relation to broader societal and economic needs, including particular target groups, *e.g.* ethnic minorities.
- **Sustainability** – To what extent will the changes (or benefits) be expected to last after the intervention has been completed? This considers whether the outcomes and impacts are durable over time and after the intervention has ceased.

The assessment criteria are distinct concepts although not necessarily independent of one another, so that increased efficiency can lead to increased effectiveness, etc. Assessments may differ in the criteria that are applied. Taking the job creation outcome in Figure 3.1, efficiency is whether there are cheaper ways of creating jobs (or getting more jobs with the budget), while the effectiveness of support is how well the jobs created relate to the level of jobs that are required or planned.

“Top-down” or “bottom-up”

The choice concerning the appropriate objectives and assessment criteria must be made in conjunction with the assessment methodology. The latter is considered below and it has three elements: method of data collection; techniques for data analysis; and “tools” on which to base the recommendation or judgement.

Choices over the objectives, criteria and methodology essentially result in two kinds of assessment: “top-down” or “bottom-up”. Again, these are not mutually exclusive. In deciding which of these to focus on the factors outlined in the introduction to this chapter are important, such as the purpose, instruments, timeframe, resources and capacity for the prior assessment. In either case, the assessment is made for a determined geographical area, that is at the local level. The key features of the two approaches are:

- **“Top-down” approach:** this kind of assessment is carried out using indicators and data for broad aggregates, *i.e.* the local economy as a whole. The global objective is relevant and the assessment will collect data on the impact, which will aggregate both direct and indirect effects, so it attempts to get at the long-run net effect. However, the approach is less good for determining the outcome, and in particular the contribution to the impact of the priority areas or instruments, *e.g.* how well job creation and labour training contribute to the global objective of increasing the employment of an area.
- **“Bottom-up” approach:** this considers the effects at the level of individual agents, *e.g.* firms, employees or households. For these kinds of evaluations, the focus is on the outcome, and the operational and specific objectives are relevant. In these approaches the indirect and longer-term effects are often ignored or are only roughly calculated, so that the impact is assumed to follow in due course. Thus, for example, we may know that a job creation scheme is likely to create a certain number of net new jobs, but not how these will impact on the employment of the local economy once the displacement, linkage, multiplier and feedback effects are taken into account.

In practice there is nothing to stop the assessment using both “top-down” and “bottom-up” approaches to measure the expected effects, although there may be a difficulty in reconciling the results. In the case of local development strategies a key issue is that the spatial scale or expenditure on the strategy may be relatively small, in which case it may be difficult to detect the impact of the strategy from all the other changes affecting the local economy. Here, it may be best to focus on the outcomes.

Finally, assessments sometimes use a mixture of approaches. It is difficult to determine the **impact** from a “bottom-up” approach, as all the important linkages between agents must be identified and the expected effects must be measured, but sometimes a “top-down” assessment is used with aggregate-level data to examine the **outcome**. It is the case for the UK *ex post* evaluations of regional policy in the United Kingdom:

- The global objective of UK regional policy is to reduce over the long term the persistent gap in growth rates between the regions; and
- The specific objective of the main instrument of UK regional policy, regional investment grants, is to encourage sound projects, which improve employment opportunities.

Just about all the “bottom-up” evaluations evaluate the grants in terms of the specific objective, while the “top-down” assessments also focus on job creation, rather than the global objective.

Practical difficulties

The above discussion provides a framework for prior assessment and indicates some of the choices that must be made in these assessments. However, it is not without many difficulties and controversies. These are worth briefly looking at, as they serve to highlight the practical problems and some of the limitations of the framework outlined above. It leads to a discussion of the appropriate indicators.

The “black box” of evaluation

One criticism of the above approach is that it does not reveal much about the processes by which the effects are brought about. The approach may be fine where the purpose of evaluation is for accountability, but much less so where the purpose of evaluation is formative (see Introduction) and so about improved planning and performance. Referring to Figure 3.1, the approach views the intervention like a production process, with inputs yielding outputs. However, it reveals little about the processes yielding the outputs, and which as a result is sometimes known as the “black box” of evaluation.

An alternative is the **realist approach**, which has gained popularity in recent years. This argues that the focus of evaluation is the agents’ own accounts of their perceptions, motivations and actions in order to understand the processes at work giving rise to the effects (Pawson, 2006). While there are different strands, a common feature is the need for the evaluator to work

with the actors involved in the process in order to determine the mechanisms by which the desired outcomes are expected to arise.

While a traditional evaluation might reveal if an intervention is worthwhile or not, the realist approach might indicate how to improve the intervention, possibly in order to make it worthwhile. It is advocated for community economic development programmes, which embody a range of initiatives, but which place an emphasis on community engagement.

Systemic versus market failure

The indirect effects sketched above suggest a highly complex chain of cause and effect, even for a single instrument intervention. This is not least because the feedback and multiplier effects work through the system in complicated ways and at different speeds. Notwithstanding this, a criticism of the framework is that the environment in which the policy is applied may be subject to a **systemic failure**, rather than the **market failure** that is usually taken as a rationale for intervention (see Chapter 2).

Where a systemic failure exists then an intervention may only be as good as the weakest part of a system and possibly unsuccessful if there is a weakness or if it fails to connect with other development activities. The systemic failures are associated with research, technological development and innovation (RTDI) interventions. However, they may be relevant to some kinds of local development strategy that are multiple instrument interventions, and which fail to connect with key elements.

For RTDI interventions, an evaluation approach is proposed that is rooted in the realist tradition (Romanainen, 2004). It involves asking expert panels to provide qualitative assessments of the (prospective) impact of parallel interventions. However, it usually does not result in quantitative outcomes, while the “Evaluation Guide” prepared for the European Commission finds that the “evaluation methodologies have not been up to the task” (Tavistock Institute with GHK and IRS, 2003). Nevertheless, where the effects are of this kind, this approach could potentially be used in prior assessment.

The “theory of action”

As part of the prior assessment, it useful to have what is known as a “theory of action”. This seeks to describe the likely or expected chain of cause and effect, and it could be drawn from either the positivist or realist tradition, or possibly both. The “logic model” in Figure 3.1 is a simplified “theory of action”, but in general for any particular local development strategy it will be much more complicated than this.

The purpose of a “theory of action” is to describe the mechanisms by which the strategy is expected to have its effects (desired or otherwise). It is useful for:

- Identifying the global, specific and operational objectives.
- Determining the major effects, how these link and sources of interaction.
- Identifying the relevant indicators for which data need to be collected.
- Structuring and carrying out the assessment.

The “theory of action” is vital for carrying out a prior assessment, particularly those that are “bottom-up” in character, but also those that are “top-down”. However, in practice, a “theory of action” is difficult to articulate, both due to the complex processes at work and the weak understanding of these. For example, many local development strategies have the global objective of increasing the GDP or growth rate of some area, but the factors contributing to economic growth, even at a national level, are not particularly well understood and subject to considerable debate.

In a similar vein, Baslé (2006) believes that the underlying weakness in the evaluation of the European Union development programmes is the poor articulation of a “reference model”. The European Commission does not have a model of territorial action, while Baslé believes that improvements in this situation are reliant on developments in theory, accompanied by more detailed modelling and testing, in order to learn about the factors affecting local development. In fact, many agencies are fast developing a model of their economy (*e.g.* using an input-output model or computable general equilibrium model), and these can be used to develop a “theory of action” for a development strategy.

The indicators

No matter how imperfect, the “theory of action” can be used to determine the **metrics** for the prior assessment. This is the system of **indicators** on which data are collected, forming the information for the prior assessment. Information systems and monitoring data are discussed at length in Chapter 6, so that here the focus is on the concept of indicators. Indicators are useful for monitoring and *ex post* evaluation, but in the case of prior assessment they must be capable of being able to answer the **predictive** and **critical** questions identified above, *e.g.* what will happen as a result of the development strategy. The indicators must also capture objectives that are often vaguely expressed, *e.g.* an improvement in competitiveness.

Choice of indicators

Given the taxonomy of potential effects outlined in Figure 3.1 and associated objectives, it is clear that indicators can be selected at different levels, *i.e.* impact or outcome. Further, given the complexity of the effects it is possible that indicators may be defined at some intermediate level (see below). Overall, the choice of indicators will depend on the assessment strategy, which will in turn depend on the factors identified in the Introduction to this chapter, *i.e.* the nature of the development strategy itself, the resources available for assessment and the context in which the assessment is being undertaken. Here, we briefly outline the choice of the different kinds of indicator given in Table 3.1.

Impacts – The choice of indicators for the impacts seems relatively straightforward. If the global objective of the development strategy is to increase employment, then data should be collected for this. If it is to improve the relative growth rate of a local area then the appropriate indicators might be the GDP for this area and for comparable areas. This is illustrated by Table 3.2, which shows the impact indicators used by the UK government to benchmark its productivity objective (HM Treasury, 2004). This objective is adopted at the regional level by some agencies, and for regional interventions. It shows that data are collected on seven indicators, capturing different aspects of the objective.

Outcomes – This is associated with “bottom-up” evaluation approaches. In principle, the choice of indicators is straightforward, since like the impact and global objective, the outcome indicators can be defined in relation to the relevant specific objectives (Figure 3.1). However, like the impact, the outcome may occur years into the future, and this poses a particular problem for prior assessment given that it is *ex ante* in nature. For these indicators, it is useful to distinguish between **intermediate** and **final outcomes**.

An **intermediate outcome** is an outcome that occurs in the chain of “cause and effect” before the final outcome (or outcome). The intermediate outcome occurs sooner in time, but in the passage of time the expectation is that it will lead inevitably to the final outcome (and in turn to the impact). The link between an intermediate and a final outcome arises from the “theory of action” outlined above. Where the final outcome occurs years into the future, or is difficult to ascertain, then the prior assessment can focus on intermediate outcomes, and measure the expected effect of the strategy in terms of these.

Table 3.2. **Impact indicators for productivity objectives**

Public Service Agreement Target 1: Demonstrate progress by 2006 on the Government's long-term objective of raising the rate of UK productivity growth over the economic cycle, improving competitiveness and narrowing the productivity gap with the United States, France and Germany.

Indicator 1	Trend rate of productivity growth (output per hour) over the last complete economic cycle
Indicator 2	GDP per worker – France (UK = 100)
Indicator 3	GDP per worker – Germany (UK = 100)
Indicator 4	GDP per worker – US (UK = 100)
Indicator 5	GDP per hour worked – France (UK = 100)
Indicator 6	GDP per hour worked – Germany (UK = 100)
Indicator 7	GDP per hour worked – US (UK = 100)

Source: HM Treasury (2004), “Productivity in the UK 5: Benchmarking UK Productivity Performance: A Consultation on Productivity Indicators”, HM Treasury, London, www.hm-treasury.gov.uk/consultations_and_legislation/productivity_indicators.

Intermediate indicators

To illustrate the use of intermediate indicators, Table 3.3 sets out the “priority areas” for the UK government’s productivity objective. The UK’s “theory of action” is that increased investment, innovation, skills, enterprise and competition will lead to improved productivity. These are referred to as the “drivers” of productivity, and represent specific objectives (see Figure 3.1).

Table 3.3 shows the intermediate outcomes in relation to each priority area. None of the indicators involves measuring productivity itself, even though this is the ultimate objective of policy.

Several intermediate outcomes might be defined in relation to the same final outcome, forming a chain of cause and effect from the output to the final outcome.

In general, some guidance on the choice of indicators is as follows (DTI, 1999):

- **Outcome indicators** will in general be much narrower than impact indicators, as they are trying to capture just the short-run direct effects.
- **Intermediate outcome indicators** should be used only for those causal links that can reasonably be expected to follow. Unintended effects are best ignored.

Table 3.3. **Intermediate outcome indicators for specific priority areas**

Productivity “priority areas”	Indicators
Investment	<ul style="list-style-type: none"> • Hurdle rates: required rate of return for a business to invest • Business investment as a % of GDP • Government investment as a % of GDP • Perceptions of the quality of infrastructure • Innovation
Innovation	<ul style="list-style-type: none"> • Publications and citations of research in academic journals • Business enterprise research and development as a % of GDP • Triadic patents: patents granted in the United States, and patents applied for in the European Union and Japan • Proportion of enterprises with co-operation arrangements on technological innovation activities with other enterprises or institutions
Skills	<ul style="list-style-type: none"> • International comparisons of the overall level of qualifications • Highest qualification of economically active adults in the United Kingdom • Business executive perceptions of management quality
Enterprise	<ul style="list-style-type: none"> • Fear of failure preventing people from starting a business • Venture capital investment as a % of GDP • Cost and time to register a firm • Total entrepreneurial activity • Difference between the productivity growth of small and medium-sized enterprises and of all firms
Competition	<ul style="list-style-type: none"> • Trade in goods and services as a % of GDP • Product market regulation • Competition regime peer review: a survey of competition experts relating to the effectiveness of the competition regime in different countries

Source: HM Treasury (2004), “Productivity in the UK 5: Benchmarking UK Productivity Performance: A Consultation on Productivity Indicators”, HM Treasury, London, www.hm-treasury.gov.uk/consultations_and_legislation/productivity_indicators

- An intervention may have **several final outcomes** where it affects several markets, which may imply several chains of intermediate outcomes.
- An **identical set of indicators** need not be used to assess all interventions, but where relevant consistent indicators can be used to aid comparability.

The indicators need not be specific to an intervention, and may be chosen to aid comparison across different kinds of intervention, known as **core indicators**.

In practice, the choice of indicators depends on the understanding that the assessor has of the causal chain of effect going from the output to the

impact, and on how far down this chain the prior assessment can reliably collect data and other information.

Assessment methodology

In conjunction with the objectives and assessment criteria, and in the light of the “theory of action”, the assessment must decide on a methodology, which has three components:

- The method of data collection.
- The techniques for data analysis.
- The “tools” that are used to base the recommendation or judgement.

Again, there are many options, and these are shown in Table 3.4. The choice must be made according to whether the assessment is “top-down” or “bottom-up” and the indicators.

Table 3.4. **Types of methodology for prior assessment**

Methods of data collection	Techniques of data analysis	Tools to base judgements
Social surveys	Cross-tabulation and correlation analysis	Financial appraisal methods
Beneficiary surveys	Input-output analysis	Cost-benefit analysis
Individual (stakeholder) interviews	Econometric models (Computable General Equilibrium models)	Benchmarking
Priority evaluation	Regression analysis	Cost-effectiveness analysis
Focus groups	Shift-share analysis	Economic impact analysis
Case studies	Experimental / quasi-experimental approaches	Gender impact assessment
Participatory approaches and methods	Delphi survey	Environmental impact analysis
Use of secondary source data	Strengths and weaknesses analysis (SWOT)	Strategic environmental assessment
Use of administrative data	Net present value	Multi-criteria analysis
Observational techniques	Internal rate of return	Expert panels

Source: Adapted from Tavistock Institute with GHK and IRS (2003), *The Evaluation of Socio-Economic Development: The Guide*, Tavistock Institute, London.

In general, several kinds of methodology can be identified, varying in their level of sophistication and purpose, as follows:

- **Outputs and inputs:** the methodology could be simple, and involve little more than data collection on the expected outputs or even inputs, *e.g.* amount of industrial space provided, length of roads constructed or number of firms supported.
- **Impacts and outcomes:** more usefully, the methodology will seek to determine the likely effect of the strategy in terms of outcomes or impacts. For impacts it may involve using a formal model for the local area. For outcomes it involves collecting data on things such as the expected amount of net new development (*e.g.* from new industrial space or roads) or number of net new jobs.
- **Target setting:** the purpose of the assessment may be to set targets for which data can be collected, both for monitoring and for evaluation at a later date. The targets may be set relative to the outputs (*e.g.* number of training places) or the expected outcomes or impacts (*e.g.* number of trainees finding jobs or the level of employment in the local area).

Modelling approaches

Where there exists a suitable model of the local economy at an appropriate level, then it can be used to make an assessment of the likely impact. Broadly, there are a number of approaches that can be used to estimate the impact. These are technical in nature, including input-output analysis, macro-econometric methods and a computable general equilibrium model. Treyz and Treyz (2004) review these methods and their pros and cons. In the case of a local development strategy a key issue is whether the model can be constructed at the appropriate scale and whether aggregate data can also be obtained at this level. This potentially is a key constraint, which may limit the use of these models in local development strategies.

Treyz and Treyz also outline the REMI Policy Insight model, which seeks to combine elements of each of the above approaches into a single model. To date, the REMI model has mainly been used in the United States, but has found applications in Europe. The model can be constructed for a single region, for multi-regions (allowing for inter-regional linkage and feedback effects) or for a multi-regional national model.

Sources of information and data

In terms of the development strategy outcomes, and to support an aggregate-level analysis of impacts, it is necessary to collect data and information. There are a number of possible sources:

- Previous *ex post* or interim evaluations of similar strategies carried out in the local area.
- Previous evaluations of similar development strategies carried out in other local areas, possibly outside the region or country.
- Discussions with local agencies concerned with implementing the strategy.
- Contacts with sources of expert opinion, and
- Interviews with agents likely to be affected by the strategy.

In addition the assessment will collect primary data on the local area, or draw on other sources of data, published and unpublished. This will include data for the area as a whole (*e.g.* GDP or unemployment) and for agents (*e.g.* number of firms and employment), but which may also be in aggregative form.

Economic appraisal

In the case of appraisal there are well-developed tools on which to base the judgement. These tend to be rooted in the literature on economic appraisal, which is also known as **cost-benefit analysis**. Broadly, it involves collecting data on the benefits and costs that are expected to occur over time, and valuing these at their economic value or resource cost. Market prices give information on the economic value, although these may be deficient where markets are imperfect, for which “shadow” prices must be constructed.

For effects such as externalities, which do not have prices at all, these are valued using techniques such as **contingent valuation**. These techniques are pertinent to development strategies where the major benefits are improvements to visual amenity or reductions in travel times, for example transport infrastructure such as a road or bridge. Generally, economic appraisal will discount cash flows occurring over time to allow for the different time value of money. It also adopts a **net present value** appraisal rule.

Target setting and performance monitoring

A key part of the assessment of expected impacts should be to set targets for the local development strategy, for which data can be collected both for monitoring purposes and for interim and *ex post* evaluation. These not only inform future development strategies, but may lead to adjustments in the strategy itself if it is found to be substantially under- or over-performing.

In general, **monitoring** is the continuing process that involves the systematic collection of data on indicators in order to provide information on an ongoing intervention. It is used to check progress, and so differs from an evaluation, which is about the assessment of an intervention. It gives information on the progress and achievement of objectives, and progress in the use of allocated funds. The indicators chosen for monitoring can be of two types; they may just reflect changes directly connected to the intervention or they may check performance against a pre-determined targets or expected results, known as **performance indicators**. In the second case this is **performance monitoring**. It seeks to show results the relative to what was planned, so it involves setting a **benchmark** or collecting **baseline data**. These provide reference points or standards against which progress can be checked, but they differ:

- A **benchmark** offers a view on what can reasonably be expected to be achieved.
- A **baseline** records the position at the time that the intervention commences.

A benchmark is based on the performance that has been achieved elsewhere in the recent past or is coincident with the intervention, *e.g.* by comparable regions, countries or even agencies. In the case of a local development strategy it may be difficult to find suitable benchmarks, particularly where it involves a large number of instruments or the area is small or unique. In this case, it involves setting baselines.

A benchmark or baseline could be set in relation to the global or specific objectives (*e.g.* employment in the local area or jobs created by firms respectively in Figure 3.1), or even in terms of the outputs or inputs (*e.g.* number of supported jobs or the amount of public support). However, whatever they are, they mean data must be collected on the indicators as the strategy is implemented, representing monitoring.

Since many factors may affect the performance of a local area relative to the baseline or benchmarks, which are not explicitly controlled for, then performance monitoring may have little if anything to say about the impact of the strategy. Thus, it should not be seen as an alternative to *ex post* evaluation. This is carried out after the strategy has been implemented, for which the monitoring data may be a vital input.

Prior assessment in practice

Finally, it is possible to indicate further sources of practical advice on prior assessment. The first of these are the evaluations (*ex ante*, interim and *ex post*) carried out by the European Union on its economic development

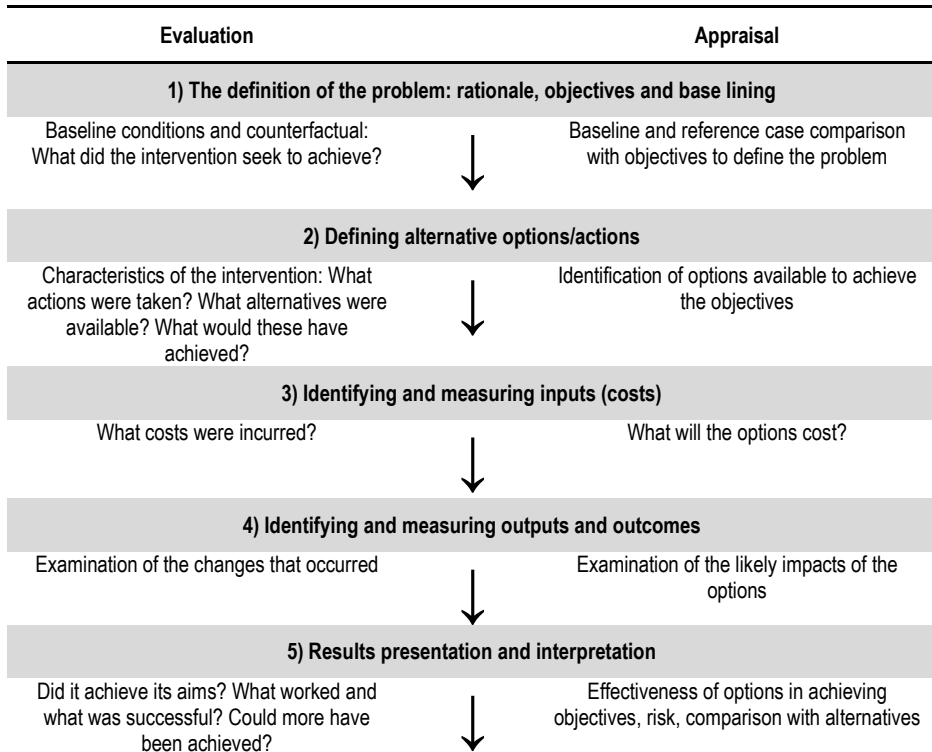
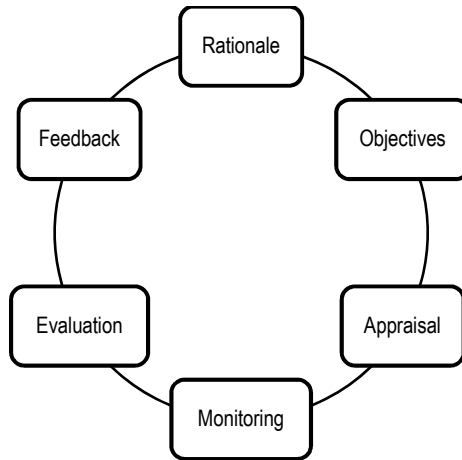
programmes. General guidance on evaluation procedures that emphasises and expands on many of the points made here can be found in Tavistock Institute with GHK and IRS (2003), while recent examples of different kinds of evaluation and problems therein of EU spatial development programmes can be found in Bachtler and Wren (2006). Further practical advice is found in the guidance for the evaluation of regeneration programmes issued in the United Kingdom by the UK government (ODPM, 2003). This approach is shown in Figure 3.2. It is based on the shorthand ROAMEF (rationale, objectives, appraisal, monitoring, evaluation and feedback) as a way of conveying the need for approaches that contribute towards the different stages of a policy cycle.

Perhaps the important point for policy makers is that the ROAMEF framework stresses the importance of feedback. It suggests that if local development strategy objectives can be devised explicitly as a continuous process of evaluator feedback, then the potential benefits for the efficacy of policy are likely to be substantial.

Conclusions

The purpose of this chapter has been to highlight the choices that must be made in assessing the expected benefits of a local development strategy and to demonstrate the different approaches to assessment that may be taken. Prior assessment is essential to ensure that the correct strategy is implemented and that the benefits are maximised for the local area. However, the choices that are made regarding the prior assessment will ultimately depend on the three key features outlined in the Introduction. These are the characteristics of the local development strategy (nature, purpose, financial and geographical scale); the available resources for assessment (funds, time, data and human resources); and the context in which the assessment is undertaken (economic, political and understanding of the user). Whatever approach is taken, a framework is required for assessing the effects, and part of the purpose of this chapter is to indicate the nature of such a framework.

Figure 3.2. Stages of the assessment cycle within ROAMEF



Source: ODPM (2003)

Assessing Expected Impacts – Summary of Do's and Don'ts

Do's

- Commence the assessment in good time and allow sufficient time for its completion.
- Have a clear sense of the purpose of the local development strategy and what it is seeking to achieve.
- Be certain about the objectives or targets against which the assessment is to be made and the criteria being used to make a judgement.
- Try to identify the alternative policy options, including the possibility of doing nothing.
- Make sure the resources available for the assessment are adequate, including funding, data and human resources.
- Define the key aspects of the situation to be addressed by the programme.
- Identify the major expected economic, social and other benefits and the likely costs of the programme.
- Have a clear sense on the relevant indicators on intermediate and final effects for which data need to be collected and effects estimated.
- Be prepared to offer different estimates for different scales and alternative forms of the proposed intervention.

Don'ts

- Don't make the assessment over-sophisticated, but at a level that can inform decision makers and ensure an optimal decision is taken.
- Don't omit important expected effects, but at the same time don't spend excessive time on trivial effects that over-complicate the assessment.
- Don't carry out the assessment at an inappropriate spatial scale.
- Don't use methods and techniques that are inappropriate for the local development strategy under consideration.
- Don't ignore factors likely to influence the key problem, and the main groups of actors that are likely to be influenced.
- Don't ignore the possibility that matters will turn out differently than expected, so be prepared to present a range of estimates as key assumptions are varied.

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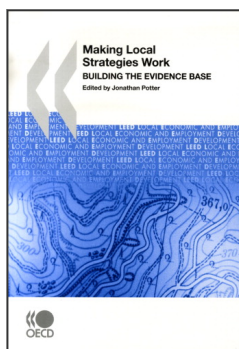
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