The Evaluation of UK Regional Aid Programmes

Ruth Anderton, BIS
Outline…

- Background of regional aid policy in the UK
- What is the UK’s approach to evaluation?
- What methodology has been applied?
- How has evaluation impacted policy design?
- What are the lessons for evaluation of State aid interventions?
Background

- Regional Selective Assistance (RSA)
- Selective Finance for Investment in England (SFIE)
- Grant for Business Investment (GBI)
- Regional Growth Fund (RGF)

- Evaluation of RSA and SFIE (Hart et al.)
- Evaluation of RSA (Criscuolo et al.)
- Government evaluation of RGF (scoping phase)
Evaluation of Regional Aid policies


2013 Scoping of Regional Growth Fund evaluation
Evaluation design

• Seek to identify the impact and effectiveness of aid to firms against scheme objectives

• Do not consider impact on competition and trade

• Do not use random assignment to treatment, or piloting

• Seek to measure the outcome for assisted firms compared to the counterfactual

• More recent evaluations apply “quasi-experimental” techniques
  – estimate the causal impact of treatment
  – attempt to simulate a robust control group by controlling for other factors
  – aim to address problem of selection effects

• Methodology:
  – The methodology broadly followed that used in earlier RSA evaluations.
  – Focus on employment as measure of impact
  – Combines three main approaches:
    • the analysis of data on recipients held on the Selective Assistance Management Information System (SAMIS)
    • survey of supported projects by questionnaire and interview
    • discussions with case officers and regional development organisations

**Good practice:**
- SAMIS monitoring data and survey combine to provide good quality data on participants and programme costs

**Limitations:**
- No attempt to identify a control group
- No data on non-participants
- Evaluation relies on self-reported additionality and displacement
- This limits the extent to which the true causal effects of assistance could be identified
2008 - Evaluation of RSA and its successor, SFIE

- Methodology:
  - Quasi-experimental - Matching
    - telephone survey of beneficiary and non-assisted firms
    - survey collected data on outcomes and performance including employment, turnover, innovation (self-reported)
    - control variables including firm characteristics, market position, motivation for scheme assistance, alternative finance and assistance
    - methodology aims to identify and isolate the effects of support by controlling for other factors which may influence likelihood of receiving assistance
2008 - Evaluation of RSA and its successor, SFIE

• Methodology:
  – Qualitative
    • SFIE case studies of assisted firms
      – to assess the extent of wider benefits (e.g., spillovers, skills enhancement), additionality and impact on the business.
  • Case officer survey
    – to examine the appraisal and monitoring of applications to SFIE scheme
2008 - *Evaluation of RSA and its successor, SFIE*

• **Good practice:**
  – Large sample size of main survey
  – High level of detail on each firm from survey
  – Robust counterfactual
  – High quality administrative data
  – Process evaluation

• **Limitations:**
  – Short time period from launch of SFIE
  – Based on survey of respondents
  – No estimates of displacement or multiplier effects
  – Self-assessment of additionality
  – Timing
2008 - Evaluation of RSA and its successor, SFIE

• Key findings:

RSA:
• stimulates employment growth

SFIE:
• partial additionality identified in majority of cases
• complete additionality in a fifth of cases
• low levels of deadweight
• evaluation highlighted operational issues with the scheme

• Outcome:
  – Evidence to support continuation of the scheme
  – SFIE explicitly incorporated GVA test and skills test to make outcomes measurable and move towards higher quality projects
2012 - The Causal Effects of an Industrial Policy

- Methodology:
  - aims to address the issue of selection bias by exploiting the EU rules governing the eligibility of UK areas for the policy
  - takes an area based approach, looking at areas that gained or lost eligibility over time
  - links rich administrative panel data on population of RSA program participants and population of British plants and firms over past 20 years
  - matches firms by assigning a probability of treatment to identify control group to compare to the treatment group
2012 - *The Causal Effects of an Industrial Policy*

**Good practice:**
- Good quality dataset
- Consider impacts at different levels of regional aggregation
- Aims to identify counterfactual through matching methods

**Limitations:**
- Relies on a narrow set of indicators
- Does not capture wider economic impacts
- Potential selection bias associated with areas eligible for aid - could lead to underestimation of treatment effects
2012 - *The Causal Effects of an Industrial Policy*

**Key findings:**
- Positive program treatment effect in key variables
- Policy raises area level employment and significantly reduces unemployment i.e. not just substitution of employment
- Positive treatment effect confined to small firms and does not carry over larger firms
  - Excluded positive spillovers and wider benefits
  - Potential for “gaming” by larger firms

**Outcome:**
- Re-enforced rationale for the previous introduction of more rigorous additionality assessment as part of appraisal and implementation of GBI to limit risk of “gaming” by large firms
2013 - Scoping research: Evaluation of RGF

• Proposed evaluation methodology:
  – **Quasi-experimental** approaches to capture firm level impacts, adjusting for selection
    • **Matching**: expected to be the primary approach for identification of a counterfactual
    • **Mixed methods**: due to variation in the type of beneficiary matching may not be possible for all - multiple approaches are expected to be applied to capture cases where matching is not possible

  – Full economic evaluation to capture **area level impacts** and assess the **direct and indirect effects** of the RGF on the local economy including spillovers and agglomeration effects

  – Process evaluation to understand customer journey and effectiveness of the delivery mechanism
2013 - Scoping research: Evaluation of RGF

• Good practice:
  – **Monitoring data** collected frequently and independently reviewed
  – Engagement with key **internal and external stakeholders** to rigorously examine the chosen methodology for the impact and economic evaluations
  – Proposes use of the most robust methods where possible, but allowing for **mixed methods** to increase coverage
  – Economic evaluation to take into account both direct firm level effects and area effects incl. **wider benefits** (e.g. spillovers and agglomeration effects)

• Outcomes:
  – Regional Growth Fund was introduced as a competitive process with the aim of increasing the value for money and impact of aid to firms
  – Evaluation will identify the impact of the programme, and the effectiveness of the delivery mechanism
Lessons

• Robust evaluation requires high quality monitoring data
• Methods applied should assess the effectiveness of schemes against objectives, but not be limited to a narrow set of outputs/outcomes
• Robust evaluations techniques should be applied to control for selection
• However, without random assignment, all quasi-experimental approaches will have their limitations
• Increasing focus on mixed methods – applying the most robust methodology where possible, but using alternative methods where necessary
• Quantitative evaluation should be supplemented with qualitative research to understand why scheme was or wasn’t successful
• Challenges associated with executing robust evaluation vary across State aid interventions, with greater methodological challenges in some areas than others