



## **PROJECT CONCEPTUAL FRAMEWORK**

### **BUILDING LOCAL ECONOMIC INTELLIGENCE (BLEI)**

#### **Introduction**

Gathering evidence is an essential requirement for local development organisations to design sound economic development strategies, demonstrate delivery against objectives, and prepare a path for future policy action. The new project of the OECD LEED Programme on Building Local Economic Intelligence (BLEI) aims to support national and local governments with sourcing and using information to design development strategies that are informed by evidence on current economic performance, drivers and enablers of change, existing barriers to development, and policy gaps. The BLEI project intends to provide a tailored template into which appropriate information is collected and used.

This new project builds on past recent work of the OECD LEED Programme, including the publication *Making Local Strategies Work: Building the Evidence Base* and the Project FIELD – Framework for Information Exchange and Local Development.

#### **Objectives**

The overarching objective of the BLEI project is to increase the local capacity to collect and use appropriate economic information and evaluation evidence in a structured way so as to feed the strategy-making process. This project is about the process of building an evidence-based strategy, whose goal could equally be a generic one like promoting local economic development or a more specific one like boosting entrepreneurship and business development.

More specific objectives will consist in helping local development organisations to:

- Identify “drivers”, “enablers”, and “barriers” to local economic development in such a way as to support an informed strategy-making process.
- Improve local approaches to gathering information and evaluation evidence, as well as to using such information to feed the strategy making process.
- Introduce and explain the implementation of knowledge-management tools such as horizon scanning and technology foresight to build forward-looking strategies.
- Create a dashboard of indicators to monitor the progress of the strategy and to eventually compare the performance of the locality as against others equally involved in the project.

- Evaluate the impact of local strategies on drivers, enablers and barriers to development, and use the evaluation evidence to fine-tune existing strategies and inform new ones.

The context and complexity of strategy formulation vary by country, and the programme of work will reflect this by devising country specific objectives for each project. This could be set at a local or national level, as well as covering specific policy themes or a fully integrated development strategy.

### **Key issues and responses**

Three key issues will be analysed by the project:

- ***Information analysis & strategy making:*** the focus will be here on obtaining and utilising economic information from diverse sources, and on profiling the drivers, enablers and barriers to be overcome. Many countries and localities find it difficult to define and measure the success of their own development strategies. The skills associated with the information gathering process are often overlooked. As a result, it becomes difficult to inform the strategy through baseline economic analysis and to show progress on what the strategy is achieving.

The project will address this issue by helping local development organisations to source the quantitative and qualitative information they need to design evidence-based strategies. The project will also set up capacity-building sessions to transfer the organisational skills needed to use available information to the purpose of informed strategy-making

- ***Creation of a dashboard of indicators:*** Overload of information and lack of comparability leave organizations, especially at the local level, puzzled in terms of strengths and weaknesses, gaps in capacity and performance, and relative progress and accuracy of the local development process.

A key aspect of the project will therefore be the identification of economic and employment development indicators that can be tracked against targets and milestones, and benchmarked over time and against other localities to better understand policy impacts and future needs.

- ***Set-up of an appropriate evaluation framework:*** Evaluation evidence is frequently gathered in an ad-hoc manner and without an overarching framework to use it properly. It is often on a responsive basis rather than as part of the driving forces within the strategy process. Having a framework and guidance for gathering evaluation evidence is an important step forward, although the effective application of the framework to inform policy decisions is a persistent challenge. In many countries, evaluation frameworks are seen as technical, mechanistic structures requiring expert assistance to apply. Thus, they do not become embedded in local organizational strategic thinking, nor does the evidence output gain the attention of decision makers.

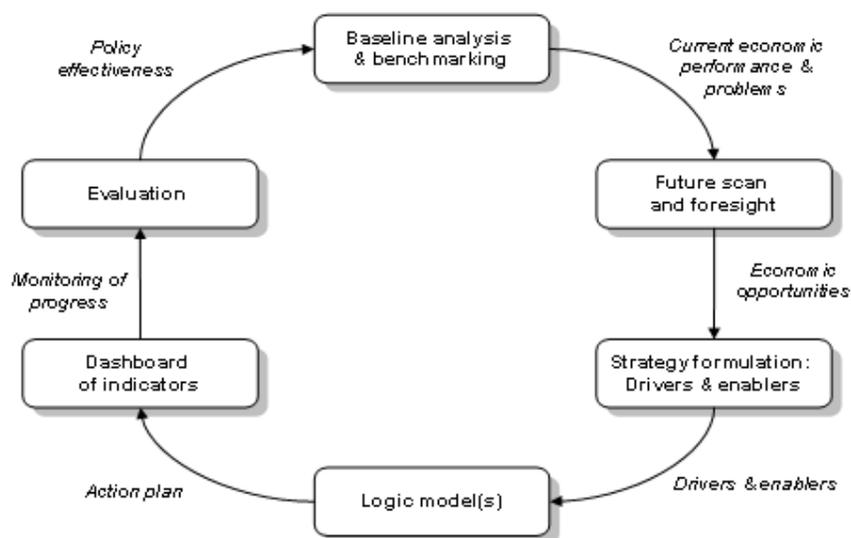
The BLEI project will illustrate how to carry out simple evaluation assessments of strategies and policies, and how to use the deriving evidence for the overall strategy development process. The project will also develop the organizational capacity to undertake internally such evaluation exercises.

### **The BLEI six-stage approach**

The BLEI project adopts a six-stage approach, and its contribution will consist in introducing and strengthening each of these stages in local development organisations. The approach will adjust to the

concrete needs and goals of the partner organisation, as each stage of the process will also depend on the final goal of the development strategy.

**Fig. 1 – The BLEI approach**



***Baseline analysis and benchmarking***

At the outset of a local development strategy process, current economic performance and social conditions need to be carefully reviewed in order to produce an accurate understanding of the state of affairs. It is important to properly understand problems and challenges which sets constraints to local development. The baseline information plays an essential role in evidence-based strategy making since it provides the essential point of comparison for observing any policy-induced changes.

An effective part of this process is to compare the locality with similarly sized and structured regions. This benchmarking process will position the locality in terms of relative performance indicators among relevant peers. This cross-regional data can be also invaluable in the later phases of the process if impact evaluation methods are used which require comparative data among peer localities.

The baseline analysis and benchmarking constitute the core of the *data collection strategy*. This strategy should take into account the anticipated information needs for creating an indicator dashboard and for conducting impact evaluation.

***Future scan and foresight***

Effective local economic development does not concern only mitigating social and economic problems, but it is also about taking advantage of available economic opportunities. A foresight activity casts light on expected changes and potential opportunities for economic renewal. It builds on an information base and on a participatory process.

The information base consists of quantitative and qualitative information. The quantitative information takes use of existing statistical trends and extrapolations of those trends into the future. Typical types of data which are fairly reliable for forecasting purposes are those on population, natural resources, fixed assets (e.g. infrastructure lifecycle). However, a great share of relevant development trends is subject to short- and mid-term changes that are difficult to predict on the basis of past information. Economic development patterns often evolve in a non-linear manner, with cyclical patterns and disruptive changes. In these cases, quantitative data should be complemented with more qualitative information, based on expert insights. A range of foresight methods are available to collect and structure future-oriented views by experts, such as scenario analysis and technology road-mapping. Tools to collect the information include interviews, surveys, expert panel workshops, and focus groups meetings.

Foresight is also a participatory process within which the expert opinions are formulated, exchanged and shared. As the relevance of any expert view is bound by the limits of his or her specific expertise, it is of great importance to build a sufficient degree of variety into the foresight process in terms of the composition of experts. Relevant voices would be from industry, research community, government, and voluntary organizations. This participatory process is ideally incorporated with the local strategy-making process, feeding in insights to the choices.

#### **Box 1. Foresight in the region of Pirkanmaa, Finland**

The region of Pirkanmaa in Finland has created a regional foresight service that feeds prospective information continuously to the strategy making processes. The service collects, analyzes and distributes information on four key components.

- *Economic forecasts* – Providing information about short to mid-term economic expectations of the industry, trends in foreign trade, employment etc.
- *Skills and employment observatory* – Reviewing trends useful in managing skills and employment trends.
- *Industry foresight* – Trends in industry branches and services, identifying global market trends, skills needs, and economic opportunities.
- *Technology foresight* – Technological trends in particular industries. Identification of emerging technologies, recessive technologies, and implications of technology convergence.

#### ***Strategy formulation: identifying drivers, enablers and policy problems***

From the perspective of an evidence-based local strategy, it is important that drivers, enablers, and barriers to economic development are correctly identified, so that policy can address the three of them. Drivers and enablers are the levers that a locality needs to focus on in order to create a high-impact development plan, whereas barriers to development need clearly be removed.

The “drivers” are the areas of investment that are necessary to deliver the strategic vision and policy objectives, such as improving prosperity. For example, drivers could include: i) a successful economy attractive to business; ii) a high quality environment attractive for residents, investors and visitors; iii) a high quality of life and attractive residential location.

The “enablers” are the background conditions and local context needed to ensure the delivery of the vision. For example, enablers could include: i) a sustainable network of complementary facilities and infrastructure; ii) a highly connected area; iii) a socially inclusive pattern of development.

Finally, the “barriers” are those elements that prevent drivers and enablers from unfolding their role for local development. Examples include high unemployment, marginality of socially disadvantaged groups, formal and informal institutions unfriendly to business development, etc.

### ***The logic model***

The logic model is an analytical project-planning approach to specify the logical structure of planned activities, based on their consequences and impacts. The underlying motive for using logic model lies in clarifying the causal relations that typically remain fuzzy in the complex socio-economic settings in which local development takes place.

Logic models can be used at two related levels of aggregation. First, a logic model can be used to specify broad strategic goals into more operational chain of activities, their immediate results, and subsequent impacts. Used in this manner, logic model is a strategy formulation and design tool. Application of a logic model approach typically produces hierarchies or chains of inputs, activities, results, and impacts. Two basic types of representations are commonly used. A graphical representation of the causal linkages provides a good communication tool to illustrate the intended strategy, whereas an associated matrix specifying monitoring indicators and sources of information turn the logic model into a more sophisticated tool to monitor progress against the set goals.

Second, the logic model approach is commonly applied at the project level. Here, it becomes a practical tool for monitoring the operational implementation of activities. As the logic model approach has originally been developed to support project design and evaluation, it can be considered particularly fit this level of analysis, too.

### ***Dashboard of indicators***

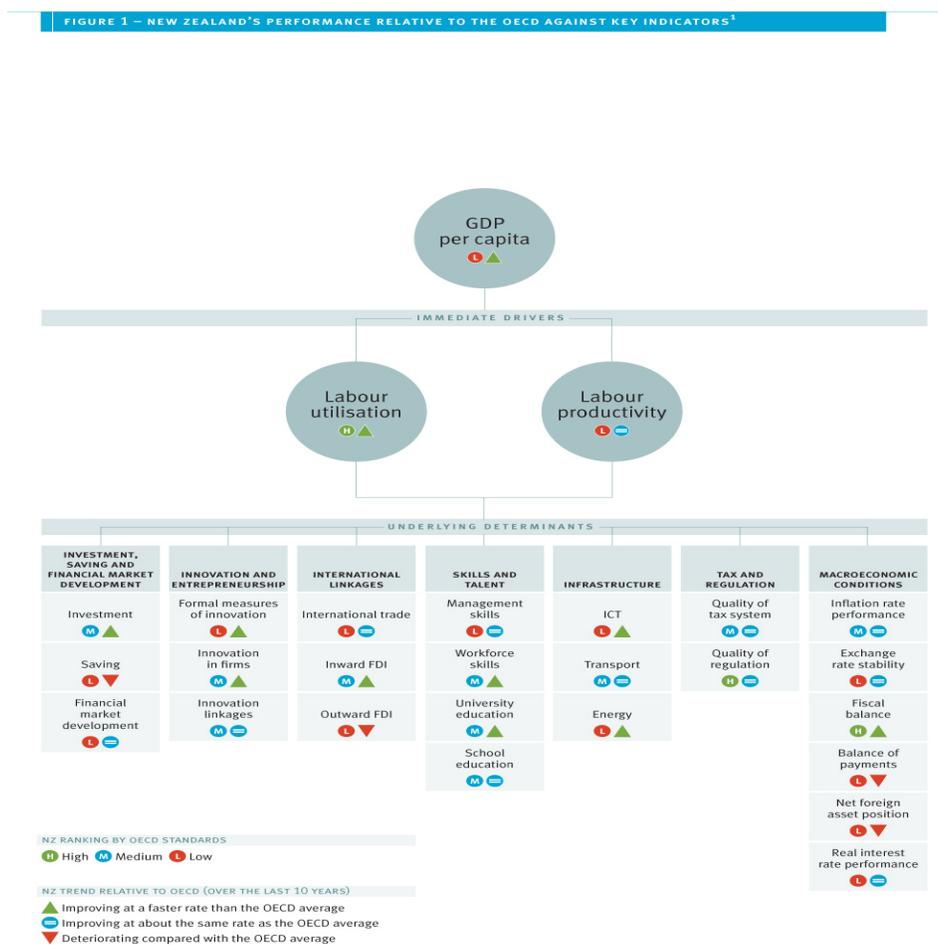
In the promotion of local economic development one may tap into a large variety of potential statistical sources of information. The diversity of these sources is a constant challenge, as they provide somewhat inconsistent collections of knowledge with varying timeframes and updating practices. A commonly applied solution to this challenge is to compile key indicators in a dashboard. A dashboard of indicators is a tool to monitor and communicate policy performance against targets. It is designed to assemble the key performance indicators in a simple structured format which can be continuously updated and easily communicated to various stakeholders. It provides a tool for monitoring economic performance not only over time, but also in comparison to other comparator areas (e.g. the national or regional average or still a similar locality).

General macroeconomic indicators cannot directly provide information about policy’s effectiveness. Various external factors affect the local economy which make impossible to derive direct conclusions about policy’s contribution to development. For the purpose of demonstrating effectiveness, thus, one needs to conduct impact evaluation. This is why a layered approach to constructing a dashboard is suggested. The dashboard can make a distinction between the macroeconomic outcome indicators and the intermediate level of drivers and enablers. The former indicates the overall economic performance. The latter demonstrate whether the locality is progressing towards building stronger capacity to generate economic development. This layered approach is based on the assumption that the macroeconomic performance largely depends on the identified drivers and enabling factors. In addition, indicators for

public policy inputs (e.g. public funding on education programmes, infrastructure or spending in R&D) can be included in a dashboard. The prerequisite is that statistical information is available at the level of analysis for a sufficient number of years.

The figure below provides a snapshot representation of a dashboard created to assess New Zealand’s macroeconomic performance over time against the OECD average. The broad macroeconomic objective is set to be GDP per capita, with labour utilisation and labour productivity being the most immediate drivers. Other drivers and enablers follow under the heading “underlying determinants”. Clearly, those areas where New Zealand ranks lower than the OECD average and with a deteriorating performance are those where policies need to focus in the future. A similar national example can be easily applied at the local level, too.

**Fig. 2 – New Zealand’s dashboard of indicators**



**Evaluation**

The ultimate purpose of evaluation is to generate evidence about impacts of local development policy. Conceptually, this task requires comparing the observed outcomes with a counterfactual situation – i.e. a situation in the absence of policy – and demonstrating that the outcomes can be attributed to the policy

intervention. In other words, evaluation needs to compare the outcomes (policy-on) with the counterfactual condition where there was no local development policy in place at all (policy-off).

There are two basic ways to approximate the counterfactual situation. The first method is to use a control group of non-beneficiaries who were not subject to the intervention. In ideal case, one would create a randomized controlled trial, where random sampling methods could be used. In the case of economic development where participants cannot normally be selected on a random basis, this strategy is normally not feasible. Without randomised control groups the comparison method is subject to bias, as the comparison groups cannot be assumed to be similar in all respects.

The second method is to compare the situation after the intervention with the situation before beneficiaries are exposed to the intervention. This method is often used by collecting statistical data or survey data which allow for comparing the conditions before and after the intervention. This approach is also subject to serious biases, as evaluators cannot control other confounding factors whose effect cannot be excluded.

There is a third method, “difference-in-differences”, which combines the two previous methods. As this method uses both comparison between groups and comparison over time, it is better equipped to offset and control the biases. The difference-in-differences method, in a simplified version, compares groups of beneficiaries and non-beneficiaries over two periods of time. In the first period, both groups are not subjected to the policy intervention. In the second period, the first group will receive the intervention while the other does not. The method of double comparison can remove biases in second-period comparisons between the treatment and control group that could be the result of permanent differences between those groups, as well as biases from comparisons over time in the treatment group that could be the result of trends and not of policy. The difference-in-differences method produces estimates of impacts that are in principle more plausible than those based on a single difference, i.e. either over time or between groups.<sup>1</sup>

While estimating the nature and quantity of impacts is of great importance in the evaluation of local development policies, it is also necessary to analyse the underlying reasons why the policy works or does not. The *logic model approach*, as reviewed above, provides the necessary “theory of action” on which evaluation can build on. One needs a causal model which shows how programme activities are understood to generate the intended immediate results and ultimate socio-economic impacts. This causal pattern, produced by the logic model approach, serves as the necessary starting point for designing an effective evaluation of local development strategies.

Evaluation also builds on the *dashboard of indicators* reviewed in the previous section. If the dashboard indicators are correctly selected to represent the most essential drivers and enablers of local development, they provide the primary focus of the evaluation exercise. Attributing the policy to these intermediary outcomes can be more firmly established than to final macroeconomic outcomes such as GDP or total employment, as the latter are subject to many confounding factors. Evaluating policy impacts on enabling factors takes individuals and firms as primary units of analysis, which lends more easily to

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1. Various other evaluation approaches such as econometric methods are available to estimate the impacts (e.g. shift-share analysis, input-output models, econometric modelling). Unfortunately, many of them cannot be reliably used at the level of a local economy. This is due to the fact that local development policy interventions tend to account for only a small proportion of net inputs. Other factors, such as transfer payments and national policies, make it difficult to isolate the net impact of the local development policy in the manner required for many econometric approaches.

reliable estimation of impacts than analysis where the unit of analysis is a macroeconomic indicator of a whole locality or a region.

## Methods

Building on the approach described in the previous section, the BLEI project will work to reach an agreed evaluation system and dashboard of indicators that can help the locality set up an informed economic development strategy. Specific frameworks will be developed for immediate practical use in the host locality by tailoring them to a specific theme (e.g. entrepreneurship, SME development, etc.) or overarching objective of the partner organization (e.g. increased business productivity, FDI attraction, etc.)

More specifically, the following methodological steps can be envisaged:

- **Start-up meeting:** in this meeting the BLEI approach will be presented, together with other possible evaluation tools, and confronted with the local practice on collecting relevant information, feeding the strategy with such information, monitoring and evaluating progress and achievements, etc.
- **Background paper:** Following the start-up meeting, a local expert will be tasked with preparing a paper on the characteristics of the local evaluation framework, the extent to which the local strategy is evidence-based, the correct identification of the drivers and enablers, and possible dashboard indicators, etc.
- **Desk research:** In parallel, the OECD LEED staff will carry out a desk research on strategy and evaluation material available in English that concerns the locality being examined.
- **Study-visit:** With this background information in mind, the OECD LEED staff will undertake a study-visit of three days, together with international experts, in the locality to meet with representatives of the partner organization and other stakeholders. The objective will be to discuss identified pitfalls in the strategy formulation and evaluation framework, single out local drivers and enablers of development, propose changes to the strategy making process and the evaluation framework, and come up with a local dashboard of indicators that can assist the partner organisation in monitoring progress towards the identified objectives and against comparator areas.
- **Report drafting:** the findings and results of the study visit will be formalised in an interim report that will be drafted by the OECD secretariat and by the panel team of experts that have participated in the review process.
- **Workshop:** The interim report, including the proposed dashboard of indicators, will be discussed during a one-day workshop with the local/national partner organisation. This workshop will lead to an agreed Action Plan on how to adjust the current strategy making process and evaluation framework in line with the recommendations made in the report.
- **Delivery of the final report:** the final report, inclusive of the Action Plan, will be submitted to the partner organisation. The findings of this report will be combined with those coming from other examined localities to inform a general report to be submitted to the LEED Directing Committee in 2013.

## Participation

The project is open to both national and local governments, which can participate in different ways:

- ***Undertake a comprehensive review of the strategy-making process (of a locality or a specific development organisation).*** The review will analyse each of the six steps of the BLEI approach to strategy making, with a view to improving the information channel leading to the elaboration and evaluation of the development strategy. The study will also result in the creation of a dashboard of indicators and will be followed by a workshop discussing how to implement the findings and recommendations of the analysis in the current strategy making process and evaluation system of the locality/development organisation.
- ***Host a focused workshop on a theme or on a process stage.*** Alternatively, a national or local actor can decide to organise a workshop with a narrower focus either on a specific theme (e.g. entrepreneurship, skills, social inclusion, etc.) or on a specific phase of the BLEI six-stage approach that is of particular concern to him. The workshop will be geared towards policy makers engaged in strategy-making and monitoring and evaluation, and will result in a paper presenting the results of the workshop and suggestions for improvement in the practices of the partner organisation.
- ***Provide background material.*** Finally, national and local organisations can provide the OECD LEED Programme with information on their own strategy-making process and evaluation systems that could feed the final report of the project. The material will have to be in English.

## Outputs

### *National government*

In the case of national governments providing a voluntary contribution the output will depend on whether they sign for a comprehensive review or a workshop:

- ***Review:*** The OECD/LEED will deliver a report on how selected localities currently goes about strategy making, how they can improve the strategy making process by building the evidence base, and how they can create a dashboard of indicators that can help them to track progress against targets and assess their performance against each other. The report will include an action plan and will be followed by a capacity-building seminar for policy makers engaged in the strategy making process.
- ***Workshop:*** The OECD/LEED will organise a series of workshops in different localities on specific themes or stages of the BLEI process that are relevant to the localities. Papers and action plans for each locality will follow, suggesting steps to implement the findings and conclusions of the workshops.

### *Local government*

For a local government signing up for a project, the options will equally be:

- ***Review:*** The OECD/LEED will deliver a detailed report on drivers, enablers, and barriers to development for the locality being examined. It will assess its strategy making process, identifying what information is locally most relevant to build an evidence-based strategy. The report will explain how to apply the most appropriate tools to carry out foresight activities, how to set up the most relevant dashboard of indicators, and how to build an evaluation system that assesses progress and

feeds in circle the strategy making process. The report will include an action plan and will be followed by a capacity-building seminar for policy makers engaged in the strategy making process.

- **Workshop:** The OECD/LEED will organise a workshop on a specific theme or process stage that is of particular concern to the local partner organisation. Compared to the workshop sponsored by a national authority, there will be here less of an emphasis on comparability with peer localities, and more on the specific details of how to build up an evidence-based thematic strategy (e.g. on innovation, entrepreneurship, etc.) or a sound stage of the strategy making process (e.g. information baseline, foresight, etc.). A paper and action plan will follow, suggesting steps to implement the findings of the workshops.